SERVICE PLAN ANNUAL REPORT 2012 / 2013

FORESTRY INNOVATION INVESTMENT JUNE 2013

Forestry Innovation Investment

Front and inside cover images: Construction of the Yuriagi Public Market in Natori Japan, the second development under the Canada Tohoku Reconstruction Project.

Credit: Canada Wood Japan

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Message from the Board Chair to the Minister Responsible

June 10, 2013

The Honourable Teresa Wat
Minister of International Trade and Minister Responsible for the Asia Pacific Strategy and Multiculturalism
Province of British Columbia

Dear Minister:

I am pleased to submit Forestry Innovation Investment's Service Plan Annual Report 2012/13.

In 2012 B.C. firms produced over $11 billion in manufactured products, down slightly from 2011 but still making the forest industry one of the key drivers of the provincial economy. Although the value of pulp and paper shipments declined by twelve per cent compared to 2011, the value of wood-product shipments was up by eight per cent. This was driven by the apparent beginning of a long awaited rebound in residential construction in the United States.

Eighty per cent of timber harvested in B.C. is first processed in sawmills, with more than ninety per cent of the value of that production exported. Thus foreign lumber markets are key to forest-sector prosperity. On a global basis, B.C. firms exported 24.2 million cubic metres of lumber in 2012, six per cent more than in 2011, with the value of those exports rising by nearly ten per cent year-over-year.

In 2012 lumber sales to the United States were up by over 11 per cent, and the prospects of continuing improvement are good because the U.S. still has a long way to go in meeting pent-up demand for housing. With rising demand but significantly reduced production capacity in North America, prices continue to increase dramatically. A key composite price index for framing lumber was US$436 per thousand board feet in March 2013, thirty-five per cent higher than in 2012 and sixty per cent higher than in 2011.

Several of FII's on-going performance measures involve lumber sales in Asia and in the North American non-residential construction sector. Although B.C.'s lumber sales to the U.S. and South Korea rose significantly in 2012, sales to Japan fell short of the target. Most notably, slowing economic growth in China caused demand for B.C. lumber to plateau at 7.5 million cubic metres, which was only two per cent greater than in the previous year. That volume nevertheless constituted a healthy thirty-four per cent of all B.C. lumber exports and the pattern has continued into early 2013.

Operations

Several significant changes were made to FII's structure and functionality in 2012. Staffing for FII China had totaled 19 employees in 2011, plus numerous contractors engaged as wood frame demonstration project managers. By late 2012, FII China downsized to 14 employees of whom four were seconded to work for Canada Wood Group. Beginning in 2012/13, the focus of FII China's work shifted from major demonstration projects to working closely with Chinese government agencies and State-owned real estate development companies to help them test the merits of wood frame construction on a commercial basis.

In mid-2012 FII established a subsidiary company in India to start a new market development program aimed at introducing B.C. lumber to compete with India's imported tropical hardwood logs. "FII India" hired four employees in Mumbai, along with a technical expert from Vancouver. They will focus on learning more about commercial opportunities and distribution channels, as well as linking potential customers to B.C. suppliers. FII India anticipates opening its permanent office space in July. The office will be a co-location with the trade and investment representatives of the Ministry of International Trade, a strategic arrangement to maximize cost and operational efficiencies.

In late 2011/12 the Province contributed $2 million towards reconstruction after Japan's disastrous tsunami in March 2011. Canada Wood Group used some of that funding, along with contributions from the Governments of Canada and Alberta and the B.C. forest industry, to complete construction of a public library in Natori City which opened in January 2013, and to begin reconstruction of a seaside public market in the same region. Canada Wood Group expects to initiate one or two more reconstruction projects using Canadian wood products.

In relation to market acceptance, no significant forest management issues arose during the year, as customers around the world continue to believe that B.C.'s forest practices are better than average. FII continues to collaborate with other organizations to make architects, specifiers, developers and builders aware of the environmental merits of our forest products, especially as quantified by the emerging science of Life Cycle Assessment for building systems.

As documented in the body of this report, FII substantially achieved the performance targets set in the most recent Service Plan. The exceptions involved the volume of softwood lumber exports to China and Japan, which were adversely impacted by slow economic growth in Asia and the rising price for lumber in the U.S. market. Rising prices for lumber also negatively impacted volume forecasts for the non-residential sector.

Financial Assessment

In 2012/13, FII received a total of $18.9 million in cash funding from the Province, the Government of Canada (in support of the new subsidiary in India), and other sources. Through competitive processes, $10.7 million was offered to share the cost of other organizations' market development and Wood First activities, of which $9.5 million was taken up by eleven trade associations, FPInnovations, and the University of B.C. Of this amount, the funding recipients ended the year spending $8.5 million. In 2012/13, FII's funding leveraged an additional $14.9 million in contributions from other organizations, allowing for a combined market development effort of $23.4 million, or $2.70 for each $1.00 contributed by FII.

FII ended the year with a surplus of $0.6 million, bringing its retained earnings to $1.8 million, of which $1.45 million is in the form of accumulated cash.

Risk and capacity

The most important factors influencing marketing success are beyond FII's control. Demand for B.C. forest products is driven by the level of economic activity in other countries, especially residential construction and renovation in the United States. Furthermore, the international competitiveness of B.C. firms is directly tied to the strength of foreign currencies. FII's objective is to positively influence demand for B.C. products within whatever circumstances may prevail at any given time.

For program delivery, FII relies on the willingness and ability of trade associations to propose, deliver, and share the cost of a host of product and market development activities. They in turn rely on funding not only from FII and their member companies, but also from the Government of Canada. I am pleased to confirm that the latter has publicly committed to supporting the forest industry's marketing programs through 2014/15.

The 2012/13 Forestry Innovation Investment Ltd. Service Plan Annual Report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act and the B.C. Reporting Principles. The Board is accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information reflects the actual performance of FII for the twelve months ended March 31, 2013 in relation to the Service Plan dated January 2012. The measures presented are consistent with FII's mandate, goals and objectives for 2012/13, and focus on aspects critical to the organization's performance.

The Board is responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

All significant assumptions, decisions, events and identified risks, as of March 31, 2013 have been considered in preparing this report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, objectives, strategies, measures or targets made since the January 2012 Service Plan was released and any significant limitations in the reliability of the data are identified in the report.

Dana Hayden
Board Chair

Organizational Overview

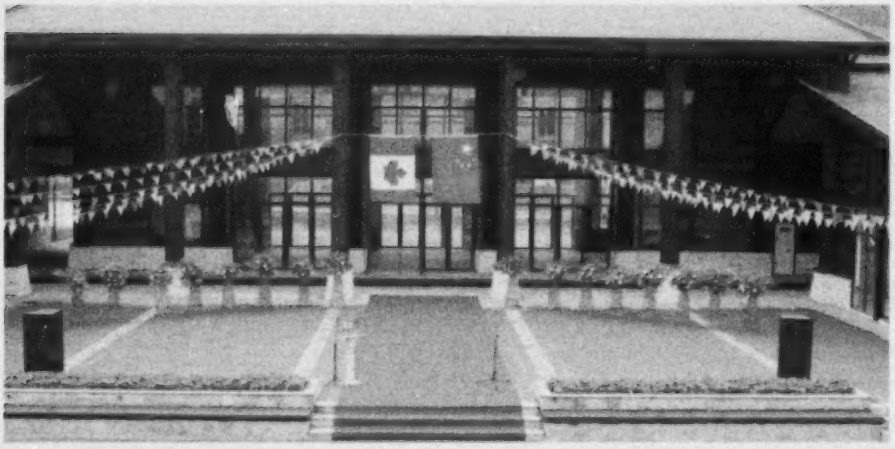
The B.C. forest sector is recognized globally for its production of high quality wood products, leadership in sustainable forest management, and for innovation in harvesting, processing and the development of advanced wood technologies and building systems. More than 55,000 British Columbians are directly employed in the sector, and more than 40 per cent of regional economies across the province are dependent on forestry. For over a century the timber in B.C. forests has sustained hundreds of communities and tens of thousands of jobs.

Maintaining B.C.'s global leadership in forestry requires constant innovation and continuing efforts to develop and diversify markets. Forestry Innovation Investment is the provincial agency responsible for maintaining and expanding markets for B.C. forest products. FII works in partnership with the forest industry, research institutions and other stakeholders to deliver innovative, forward-looking programming that responds to today's domestic and international market dynamics as well as tomorrow's challenges and opportunities. Because more than 80 per cent of B.C.'s forest industry output is sold in foreign markets, FII's market development efforts link directly to forest sector activity and the resulting job creation. A stronger, healthier forest sector encourages investment and innovation and directly supports regional economies across the province.

Enabling legislation and mandate

FII was incorporated under the Business Corporations Act in 2003. FII's mandate is based on the Government's Letter of Expectations, a directive to FII that is updated annually and confirms the organization's business direction and priority actions (as documented later in this report). For 2012/13, the Letter confirmed that the mandate of the Company was to:

- Position British Columbia as a global supplier of world-class environmentally friendly forest products;
- Actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- Help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- Work with the forest industry to promote B.C.'s forest products and forest management to the global marketplace; and
- Help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.



In 2003, the B.C. government announced the bold goal of making China the next great market for the Province's forest products and supported this by bolstering its financial contribution to industry and opening a new FII office in Shanghai. Since that time, a unique provincial, federal and industry program has built relationships with Chinese officials and developers, reduced barriers to expanding wood construction in China, and transferred technical know-how and quality support to China's leading builders and developers. Building on the momentum and profile of the program, the rise in B.C. lumber exports has been spectacular. In 2012, sales of B.C. lumber to China surpassed $1 billion for the second straight year. This compares to $69 million when the program began in 2003. Exports of lumber to China now represent over 30 per cent of the total volume of B.C. exports of softwood lumber, second only to the Province's shipments to the U.S.

Left image: Beichuan Qiang Maple Leaf Seniors Home, Sichuan Province
Right image: Construction at Sanlin Affordable Housing Project, Shanghai

Vision, Mission and Values

FII's Vision, Mission and Values provide guidance to organizational decision-making and management in terms of achieving the mandate within the context of changing markets and stakeholder expectations. The three guides to organizational direction and decision making were updated in 2012/13 as part of a review to ensure business objectives and activities aligned to the Government's Letter of Expectations.

Vision: The British Columbia forest sector is innovative, diverse and prosperous, based on sustainable forest practices and a commitment to continuous product and market development.

Mission: To develop and diversify domestic and international markets for B.C. forest products by working collaboratively with industry, government, and institutional partners, and by making well balanced investments that respond to government and industry priorities while maximizing value to the Province.

Values:

Innovation — FII anticipates changing market, economic and geo-political forces that impact the forest economy and invests in new programs, research and product development that offer competitive advantages to the forest sector.

Credibility and integrity — FII activities and funded projects are based on government and industry priorities and strategies developed in partnership with stakeholders. FII services are transparent, timely and openly communicated.

Collaboration — FII works in partnership with key stakeholders in industry, the research sector and government to develop initiatives and ensure programs are delivered effectively.

Engagement — FII is actively involved in the market and product development programs it funds and delivers. FII not only responds to government and industry priorities, but also takes the initiative to identify new market opportunities and counsel industry and government on emerging issues.

Risk Management — FII is oriented towards growing markets, but recognizes that there are risks in pursuing opportunities. As much as possible, investment decisions are firmly rooted in current, relevant, and comprehensive market information that provides a sufficiently compelling business case for each market initiative.

Accountability — FII strives for transparent decision-making and investment processes. FII staff have a duty to ensure the appropriate use of the public funds entrusted to them. Activities are expected to be founded on clear objectives, generate a positive return and have well-developed performance measures.

2003	FII incorporated
	B.C. Market Outreach Network established to promote B.C.'s sustainable forest practices and respond to advocacy campaigns targeting B.C. forestry
	Market Development Program established to identify and develop new markets for B.C. forest products, with an emphasis on Asia-Pacific
2004	Major focus on hiring permanent staff, establishing subsidiary company in China, and building office in Shanghai
2005	Demonstration wood-frame housing built in Sumatra (Indonesia) following December 2004 earthquake and tsunami to test logistics and social parameters of disaster reconstruction
2006	Completion of Dream Home Canada office building in Shanghai, China, reflects priority being placed on China market development
2006	Mountain Pine Beetle Program introduced to support industry response to outbreak, including market development, product research, and manufacturing innovation
2007	Business Innovation Program introduced to support marketing and product innovation in value-added sector
2008	$8 million Canada-B.C. Wenchuan Earthquake Reconstruction Project offers humanitarian support to China and raises profile of wood-frame construction
2009	FII responds to growing consumer interest by promoting "green" benefits of B.C. wood products
2010	FII uses Olympic venues to showcase wood use and launch marketing program targeting non-residential sector across North America
2011	FII assumes management of Wood First Initiative to create a "culture of wood" in B.C.
2012	FII scales back its subsidiary in China, and establishes a presence in India to initiate a market development program
2013	First two tsunami reconstruction projects in Japan (a library and a public market in Natori City) are officially opened

Program Areas and Organizational Structure

In 2012/13 FII was organized into an Operations business unit that reflects the corporation's mandate to deliver market development programming, and a Corporate Services unit that provides supporting services and ensures compliance with government management and administrative guidelines.

OPERATIONS	
MARKET INITIATIVES	• Research opportunities in new and emerging markets, and initiate early market exploration activities • Support industry trade associations in developing and/or expanding markets and market segments for B.C. forest products • Support industry efforts to mitigate market access and plant health issues • On behalf of the forest sector, manage outreach and relationship building with Chinese authorities and central government agencies • Undertake early-stage market development in India
WOOD FIRST	• Champion the Province's Wood First initiative and encourage expanded wood use in B.C. • Encourage the development of a pro-wood culture in B.C., and position B.C. as a leader in wood innovation • Encourage product innovation and the introduction of new wood building systems • Encourage a robust valued added sector in B.C., through enhanced capacity and competitiveness
MARKET OUTREACH	• Promote the benefits of wood as a green building material • Develop factual and science based materials to position wood's environmental benefits and climate change mitigation potential • Promote B.C. as a world leading supplier of forest products • Ensure markets are aware of B.C.'s sustainable forest practices and high environmental standards
CORPORATE SERVICES	
FINANCE & ADMINISTRATION	• Ensure financial reporting to government standards • Provide Human Resources, IT and office services to meet organizational needs • Oversee budget and planning controls
CORPORATE RELATIONS	• Compile and share export data and analysis on market trends • Support Government and industry trade initiatives • Provide corporate communication and analytical services to meet internal and external needs

A major change occurred in 2012/13 with the introduction of an India market development program and the opening of an FII subsidiary operation in India. The India initiative followed completion of in-depth market research that identified potential markets for B.C. wood products, and after consultations with industry on preferred approaches to the market. The establishment of the program and the office was financially supported by the Government of Canada. As was the case for FII in China, initiating market development operations in India required the creation of a business subsidiary incorporated locally. Details on the new subsidiary company are provided in the Corporate Governance section of this report and budget details are outlined in the Financial Report section.

Two changes that occurred in 2011/12 had significant impact on business operations in 2012/13. The first was a decision in late 2011 to shift to certain market development activities in China to the Canada Wood Group, with FII beginning to focus more fully on relations with government agencies and state-owned development companies. FII China's staffing was reduced from 17 to 14. Four of those staff were seconded to Canada Wood Group and are expected to transfer permanently in 2013/14. The second major change to impact FII's business operations in 2012/13 was the mid-2011 assumption of responsibility for the Wood First program. During 2012/13, FII consolidated programs for the value-added sector and for product innovation with new Wood First activities. Re-named the Wood First Initiative, this consolidated program was managed through a single public call for proposals, modeled on FII's Market Initiatives program.

Benefits to British Columbia

FII benefits British Columbia by supporting a more competitive, growing forest economy. Since more than 80 per cent of industry output is sold in foreign markets, FII's market development programs link directly to forestry activity in B.C. and the resulting job creation. A stronger and healthier forest economy encourages investment and innovation and directly supports communities across B.C. Specific benefits provided by FII include:

- working to maintain existing markets for B.C. forest products in collaboration with the forest industry;
- opening up new markets for B.C. forest products and creating the potential for new jobs to service these markets;
- investing in early stage market development, such as in India, where there is the potential for significant long term growth;
- building awareness of B.C. internationally, particularly in the Asia-Pacific region, and
- supporting the growth of a sustainable and green economy, and the value-added wood products sector, by promoting the environmental benefits of wood in structural and non-structural applications and greater use of renewable wood products from B.C. in building construction.

How Services are Delivered

To leverage public funds and industry expertise, and take advantage of industry marketing networks in foreign markets, FII uses a joint delivery approach for market development. About two-thirds of the FII budget funds activities delivered by industry trade associations and other groups. These activities are also funded by Natural Resources Canada through its Expanding Market Opportunities Program and by the delivery organizations themselves.

Third-party programs are selected through two annual competitive calls for proposals, one for market initiatives and the other for Wood First activities. Both are based on investment strategies updated annually and reflect current market conditions and industry priorities. Each funded activity requires the delivery organization to agree to clear performance criteria, reporting requirements, budget controls, regular monitoring by FII staff, and occasional audits by an independent auditor selected by FII. In addition to its role as a funding agency, FII also directly delivers a number of marketing and communication programs that support government priorities and provide broad-based benefits to the forest sector, but fall outside the typical mandates and scope of trade associations. These include:

- leading the Province's Wood First initiative;
- conducting market research to unearth opportunities and create new demand in emerging markets and segments;
- producing marketing resources for general use by industry, such as publications on wood as a green building material, and the www.naturallywood.com web site;
- explaining B.C.'s forest practices and environmental record to international markets;
- delivering science- and fact-based communication on the merits of wood and wood-based construction technologies in a green building and climate change context;
- collaborating with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts;
- providing market research and outreach to government agencies in China, where FII represents the interests of the forest sector in interactions with Chinese authorities and state controlled enterprises; and
- undertaking early stage market development in India.

Principal Partners, Clients and Stakeholders

FII is proud to work with the following organizations in developing and diversifying markets for B.C. wood products domestically and around the world. Working collectively in 2012/13 FII, industry, trade associations, research institutions, governments and other stakeholders maintained B.C.'s position as the world's largest exporter of softwood lumber products

ORGANIZATION	RELATIONSHIP
GOVERNMENT	
Government of British Columbia	Sole shareholder, providing FII's core funding
Ministry of Jobs, Tourism and Skills Training	Ministry that provided provincial funding for FII
Ministry of Forests, Lands and Natural Resource Operations	Responsible for forest practice regulations and timber sales, and forest and other related natural resource management
Department of Natural Resources, Government of Canada	Federal funding agency for international marketing through the Expanding Market Opportunities Program
Department of Foreign Affairs and International Trade, Government of Canada	Federal agency supporting in-market trade and investment promotion
Government of Alberta	Funding contributor to the China and Japan market development programs
NON GOVERNMENT	
Forest industry associations and organizations: • APA – The Engineered Wood Association • B.C. Shake & Shingle Association • B.C. Wood Specialties Group • Binational Softwood Lumber Council • Canada Wood Group • Canadian Wood Council • Canadian Wood Council – WoodWORKS! BC • Cedar Shake and Shingle Bureau • CertiWood • Cost Forest Products Association • Council of Forest Industries • Forest Products Association of Canada • Softwood Lumber Council • Sustainable Building Coalition • Western Red Cedar Export Association • Western Red Cedar Lumber Association • Wood Enterprise Coalition • Wood Pellet Association of Canada • Wood Products Council • Independent Wood Processors Association of B.C.	Organizations that initiate and deliver domestic and international market development programs, typically funded jointly by FII, Natural Resources Canada, and/or other partner organizations. This list also includes agencies not funded by FII, but with which FII interacts to support market and/or product development initiatives.
Post-secondary and research institutions: • University of British Columbia • Consortium for Research on Renewable Industrial Materials • FPInnovations	Partners and/or funding recipients that initiate and deliver product development and technical research, and assist B.C. value-added firms to improve product design and manufacturing.

Canada Wood Group, a consortium of industry trade associations, delivers market development programs in China, Japan, Korea, and the European Union. Funding is provided by FII, Natural Resources Canada, and industry. Activities include market development (marketing and promotion); building relationships with government officials, developers, the building sector and research institutions on topics related to market access (for instance, acceptability of B.C. species and grades in local building and fire codes); and related issues.

In China, FII supports the Canada Wood Group with an in-market presence that provides government-to-government relations with Chinese authorities and state-owned development companies.

In 2012, FII established a new office in India to lead a market development strategy on behalf of the B.C. and Canadian industry. Substantial financial support for the initiative is being provided by the federal government through Natural Resources Canada.

In the United States, trade associations including the Wood Products Council, Western Red Cedar Lumber Association, and B.C. Wood Specialties Group lead market development activities funded by FII and industry through the Binational Softwood Lumber Council, and a new participant, the Softwood Lumber Board. Activities focus on the non-residential sector, multi-storey/multi-family housing, and niche markets in the residential sector.

In other markets, trade associations lead market development activities with funding from FII, Natural Resources Canada and industry. Activities focus on market development and market access.

Location of Operations

The FII corporate office is located at:
#1200 - 1130 West Pender Street, Vancouver, British Columbia, V6E 4A4, Canada

The company's China subsidiary, FII Consulting (Shanghai) Co., Ltd., is located at:
425 Hong Feng Road, Jinqiao, Pudong New Area, Shanghai, 201206, P.R. China

FII Consulting (Shanghai) also has staff in Beijing located at:
Room 1507, Kuntai International Mansion, No.12 B Chaowai Street, Beijing 100020, P.R. China

The company's India subsidiary, Forestry Innovation Consulting India Private Ltd., is located at:
14th Floor, Tower One, One Indiabulls Centre, Elphinstone Road, Mumbai 400013, India

More information on FII is available at www.bcfii.ca. General information on B.C.'s forest products and sustainably managed forests is available on FII's public information website www.naturallywood.com.

Corporate Governance

Board of Directors

During 2012/13, FII was responsible to the Minister of Jobs, Tourism and Skills Training through a three-member Board of Directors. The Government appoints the Board to set operational policy for the organization and, in cooperation with senior management, to set strategic direction. The Board also monitors FII's performance based on the Province's planning and reporting principles. The Board appoints the Chief Executive Officer and delegates responsibility to the CEO for the day-to-day leadership and management of the organization.

The members of the Board of Directors are:

- Dana Hayden, President and CEO, B.C. Pavilion Corporation
- Lori Wanamaker, Deputy Minister, Ministry of Justice
- Dave Peterson, Acting Deputy Minister and Chief Forester, Ministry of Forests, Lands and Natural Resource Operations

The FII Board has an Audit Committee, which is responsible for reviewing, recommending, and in some instances, approving financial statements and other information. The Audit Committee has three positions. Two are filled by Lori Wanamaker and John Desjardins, Partner, KPMG. One position is vacant.

Governance Principles and Practices

The FII Board of Directors operates according to six guiding principles related to:

- stewardship, leadership and effective functioning of the Board;
- clarity of roles and responsibilities;
- openness, trust and transparency;
- service and corporate citizenship;
- accountability and performance; and
- value, innovation and continuous improvement.

Details about how the guiding principles are applied are posted on FII's website at: www.bcfii.ca/corporate-governance. The Board incorporates best practices into its governance procedures as guided by the Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations. As recommended in the guidelines, FII's disclosure, including its Status of Concurrence with Best Practices Guidelines is available on the company's website at www.bcfii.ca/corporate-governance/Status-of-Concurrence-with-Best-Practices-Guidelines.pdf. As detailed in the Status of Concurrence report, FII is substantially in accordance with governance best practices set out by the Province's Crown Agency Resources Office.

FII Executive Management

- Ken Baker, CEO
- Douglas Greig, Vice President, Finance and Administration
- Michael Loseth, Vice President, Operations

Industry Advisory Committees

Three committees of senior forest industry representatives provide continuing advice to FII:

- Market Acceptance Advisory Group: Offers strategic direction on FII's Market Outreach programming
- Wood First Advisory Committee: Offers strategic direction on the Wood First program and related priorities for investment[1]
- Proposal Evaluation Panel: Evaluates funding proposals received through FII's annual call for proposals process

[1] The Wood First Advisory Committee was established following the transfer of the Wood First initiative to FII from the Ministry of Jobs, Tourism and Skills Training. The committee provides strategic advice to the initiative, including the development of the annual investment strategy that guides Wood First investments. The committee has also replaced the Business Innovation Advisory Committee that provided advice to FII on services offered to the value-added sector. In fiscal 2012/13, FII incorporated all value-added programs within Wood First.

Subsidiary Companies

Responding to the growing market potential in India, FII established a new subsidiary company, Forestry Innovation Consulting India Private Ltd. (FII India), in 2012/13. Based in Mumbai, India, the subsidiary company provides on-the-ground assistance for B.C. and Canadian forest products companies. The new company gives FII the legal status to operate in India, employ local staff, and enter into professional and supply agreements. A three-member Board of Directors has been established to oversee operations of the company (refer to description, below).

In 2012/13, FII also established 0939031B.C. Ltd. to meet India legislative requirements that foreign-owned companies have two shareholders.

FII Consulting (Shanghai) Co. Ltd. (wholly owned by Forestry Innovation Investment Ltd.)

Primary business: Supporting the B.C. forest industry by providing market research, technical wood frame building expertise and related liaison with Chinese government authorities on behalf of industry.

Objective: Work with the B.C. forest industry and the federal government to grow the market for B.C. wood products in China, primarily by creating new demand for structural lumber and related building products.

Governance: Sole Executive Director—Ken Baker, CEO, FII

Senior Management: Lisa Dou, General Manager

Financial information: See the Financial Report

0939031B.C. Ltd. (wholly owned by Forestry Innovation Investment Ltd.)

Primary business: To serve as the second shareholder of FII Consulting India Private Limited (reflecting India legislation that requires foreign-owned companies to have at least two shareholders).

Objective: To fulfill India laws regarding foreign ownership of India companies.

Governance: Sole Director—Ken Baker, CEO, FII

Senior Management: None

Financial information: See the Financial Report

FII Consulting India Private Limited (wholly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.)

Primary business: Supporting the development of the market for B.C. forest products through market research, promoting B.C. wood products and related technologies, providing intermediation with India regulatory authorities, and providing direct support for B.C. companies entering the India market.

Objective: Work with the B.C. forest industry and the federal government to grow the market for B.C. wood products in India by creating new demand for softwood products in the furniture, interior finishing and other segments.

Governance: Three-member Board of Directors:

- Michael Loseth, Vice President Operations, FII (Acting Chair)
- Ken Baker, CEO, FII
- Douglas Greig, Vice President, Finance and Administration, FII

Senior Management: Kant Singh, Country Director

Financial information: See the Financial Report

Goals, Key Strategies, Measures and Targets

GOAL 1 — EXPAND MARKET OPPORTUNITIES, EMPHASIZING A DRAMATIC INCREASE IN FOREST PRODUCT EXPORTS TO CHINA AND THE REST OF ASIA

STRATEGIES

- Support the B.C. forest industry to develop and diversify markets for B.C. wood products in new and existing Asian markets by:
  - funding trade association market development programs based on priorities outlined in FII's Investment Strategy
  - initiating market development efforts in emerging economies
- Partner with the federal government and work with B.C. and bi-national trade associations to expand the use of wood in the non-residential construction sector in North America

PERFORMANCE MEASURES

- Softwood lumber exports to priority Asia Pacific markets
- Incremental sales generated in targeted U.S. non-residential construction markets
- Incremental sales generated in the B.C. non-residential construction market

GOAL 2 — POSITION WOOD AS A PREFERRED BUILDING MATERIAL AND B.C. AS A GLOBAL LEADER IN WOOD INNOVATION

STRATEGIES

- Establish B.C. as a leader in wood use and innovation by leading B.C.'s Wood First initiative to:
  - increase wood use in public construction in B.C.
  - advance a "pro-wood" culture in B.C.
- Advocate for the B.C. forest sector by encouraging international regulators to accept B.C./Canadian products and forest practices
- Champion science- and fact-based approaches to communicate the environmental merits of wood and wood-based construction
- Position B.C. as a leading global supplier of quality, environmentally-responsible forest products and building solutions

PERFORMANCE MEASURES

- Per cent of allowable floor area (B.C. Government buildings) built with wood
- Per cent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment

GOAL 3 — MAINTAIN FII AS A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE ORGANIZATION

STRATEGIES

- Ensure FII is efficient, transparent and results focused
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector's economic and social benefits to British Columbia
- Maximize the financial contributions of key partners
- Minimize FII's carbon footprint and promote environmentally responsible business activities

PERFORMANCE MEASURES

- Timeliness of annual funding cycle for trade associations, research institutes and universities
- Leveraged dollars as a percentage of total annual funding program

Performance Management Reporting

The performance measures outlined in this Report are specific to the work of FII staff and do not include performance measures that apply to organizations funded by FII. Those external performance measures are captured in FII's Performance Management Framework, available at: www.bcfii.ca. The framework includes measures used for managing funding to other organizations (in concert with Natural Resources Canada's funding administration) and for application to all of FII's internally directed projects.

Benchmarking

In 2009/10 FII commissioned a third-party assessment to determine whether FII's performance could be meaningfully benchmarked to other organizations. The assessment reviewed nine organizations in the forest sector and in other sectors and concluded that most were sufficiently different from FII as to offer no useful comparability. However, it was noted that two organizations (Natural Resources Canada and the former Tourism B.C.) did utilize some performance measures that could be applicable to the FII operation. FII has subsequently employed a number of internal performance measures that are similar to those used in the other organizations, and many others are incorporated the corporation's overall Performance Management Framework.

Organizational Capacity

FII had the organizational capacity, skills and budget necessary to pursue its performance targets in 2012/13. As noted in the section "Core Business Areas", FII established a new subsidiary company in India in 2012 to lead efforts to develop the market for B.C. and Canadian wood products in that country.

The North Shore Credit Union Environmental Learning Centre in Brackendale, B.C. is one of three demonstration projects supported by the Wood Enterprise Coalition, an informal partnership of the Canadian Wood Council, BC Wood Specialties Group and FPInnovations. Completed in May 2012, the project showcases advanced engineered wood products such as cross-laminated timber, laminated veneer lumber and reclaimed timbers.

GOAL 1 EXPAND MARKET OPPORTUNITIES, EMPHASIZING A DRAMATIC INCREASE IN FOREST PRODUCT EXPORTS TO CHINA AND THE REST OF ASIA

FII's underlying objective is to strengthen demand for B.C. forest products across a range of markets and end-use applications. In 2012/13 Goal 1 drove FII's efforts to assist the B.C. forest industry in developing and diversifying markets, with a particular focus on Asia. These efforts built on the science and reputational basis developed under Goal 2. They included creating or expanding new market segments within traditional regions (e.g., non-residential uses in the U.S.), as well as fostering demand in regions not currently using high volumes of B.C. forest products (e.g., the multi-family and non-residential market in China and the domestically focused re-manufacturing sector in India).

In 2012/13, Strategies under this goal drove a mix of activities delivered by third parties and by FII. FII collaborated with industry trade associations, the federal government and other funding bodies to leverage its investments, strengthen demand for B.C. forest products, and expand potential end-use applications.

Activities associated with Goal 1 have worked to anchor the progress made in diversifying B.C. exports away from historically heavy dependence on the U.S. housing sector. In 2003, only 17 per cent of lumber exports went to markets other than the U.S. By 2011, non-U.S. market share had grown to 52 per cent, not only because sales to the U.S. had dropped significantly, but also because sales to Asia, particularly China, had increased dramatically. Non-U.S. sales now stand at 49 per cent of total exports. Although the U.S. market rebounded sharply across 2012/13, industry and government have maintained their focus on market diversification by continuing aggressive efforts to build new markets in Asia and in other high-potential markets. By doing so, the forest sector has become less vulnerable to negative market cycles in North America.

To put the strategies and performance into context, the following section highlights trends in B.C.'s key international markets in 2012/13.

Market Trends in 2012/2013

Due to the improvements observed in the U.S. housing market, B.C. forest product exports continued to recover in 2012. B.C. exports of softwood lumber rose 5.6 per cent to 24.2 million m^3 (+9.6% to $4.2 billion), the highest numbers observed since 2007. Sales to the U.S. recovered by more than 11 per cent to 12.5 million m^3 (+25% to $2 billion). The volume sold to China climbed 2.3 per cent to reach another all-time high at 7.4 million m^3 (valued at $1.06 billion). Led by the resurgence of the U.S. and growth in China, volume shipped to these two customers represented nearly 83 per cent of all softwood lumber sold by B.C. Other notable B.C. customers included those in Japan (2.45 million m^3), Taiwan (387,000 m^3), South Korea (305,000 m^3) and the EU27 (203,000 m^3).

Housing starts in the U.S. totaled at 781,000 units, up from 609,000 in 2011. Based on Census Bureau data, the number of new homes sold in January 2013 was 15 per cent higher than in December 2012 and nearly 30 per cent higher than a year earlier. Furthermore, the sales of new homes were at the highest level since July 2008, about two months before the bursting of the housing bubble. Due to this buying frenzy, in February 2013 there was only a 4.1 month supply of new homes available for sale on the market – the tightest supply since 2005. All these positive housing numbers, along with supporting economic data, are encouraging signs for the wood products industry.

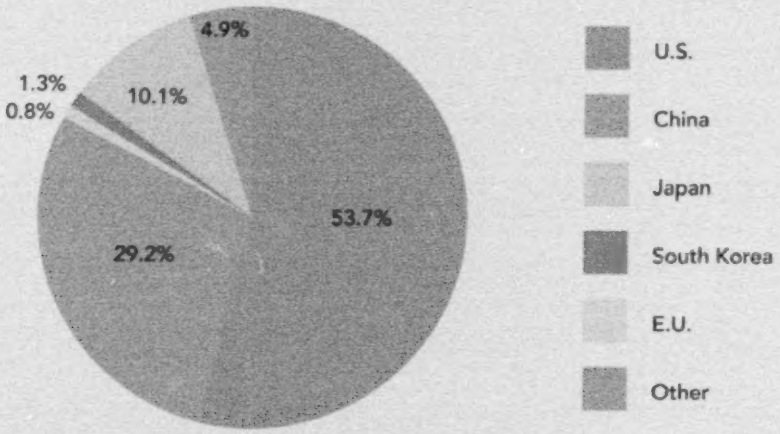
China's demand for wood products continued to grow in 2012 despite a slowdown in economic growth. GDP growth in 2012 was recorded at 7.8 per cent, compared to 9.3 per cent in 2011. For the second year in a row, B.C. sold more than $1 billion worth of softwood lumber to China. Led by B.C. exports, Canada was again China's largest softwood lumber supplier in 2012, followed by Russia and the U.S.

Japan continued to recover from the destructive earthquake and subsequent tsunami which devastated entire regions in the northern part of the country. Housing starts climbed 5.8 per cent in 2012 to 882,797 units. With increased domestic production, however, imports of softwood lumber fell (-4.3% to 6.3 million m^3) as did imports of plywood (-3.8% to 3.5 million m^3).

Exports of structural lumber to South Korea, B.C.'s fourth largest market for lumber, were up 3 per cent by volume and 9 per cent by value over 2011 driven by continued strength in the housing and real estate sector, including a growing use of lumber in structural applications. B.C. lumber sales to the European Union were down in 2012 in the face of both excess supply within Europe, and rising demand for B.C. product from the U.S.

The following charts document snapshots and trends in B.C.'s share of the market in key regions over the past decade, and highlight FII and overall industry performance relative to the goals and objectives contained in the 2012/13 Service Plan.

2012 Total Sales of B.C. Softwood Products to World Markets[2] (25.7 Million m^3)



2012 Sales and Market Share of B.C. Softwood Products in Key Markets[3]

United States
111 Million m^3
B.C. Sales 13.81 million m^3

China
210 Million m^3
B.C. Sales 7.52 million m^3

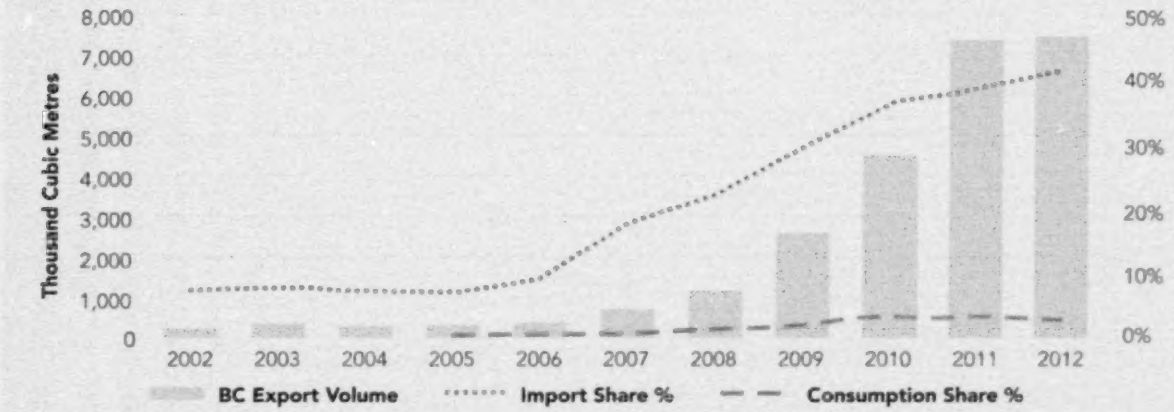
Japan
24 Million m^3
B.C. Sales 2.58 million m^3

South Korea
10 Million m^3
B.C. Sales 0.33 million m^3

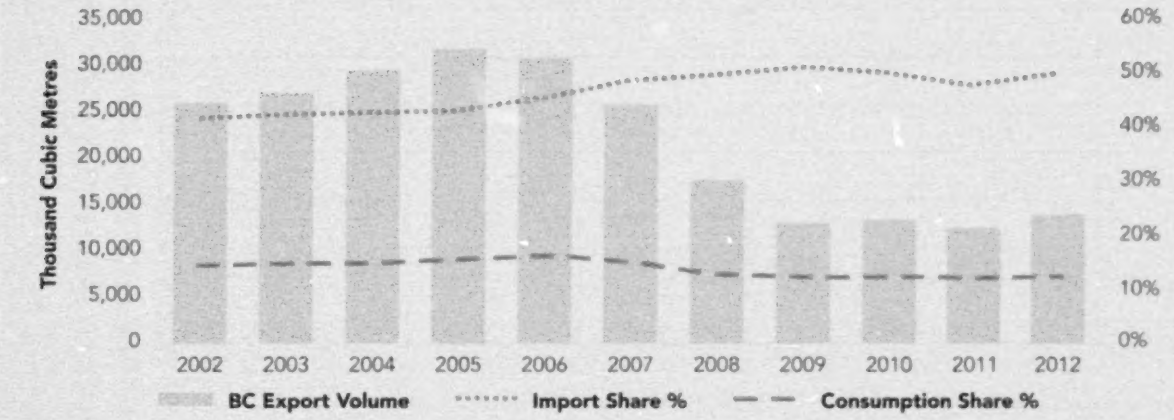
European Union
132 Million m^3
B.C. Sales 0.21 million m^3

[2] Based on sales of five softwood products (lumber, plywood, OSB, particleboard and MDF) and B.C.'s share of total domestic consumption in each market.
[3] The size of the circles is proportional to the total size of each market for the five softwood product lines. Note: China consumption data includes hardwood plywood.

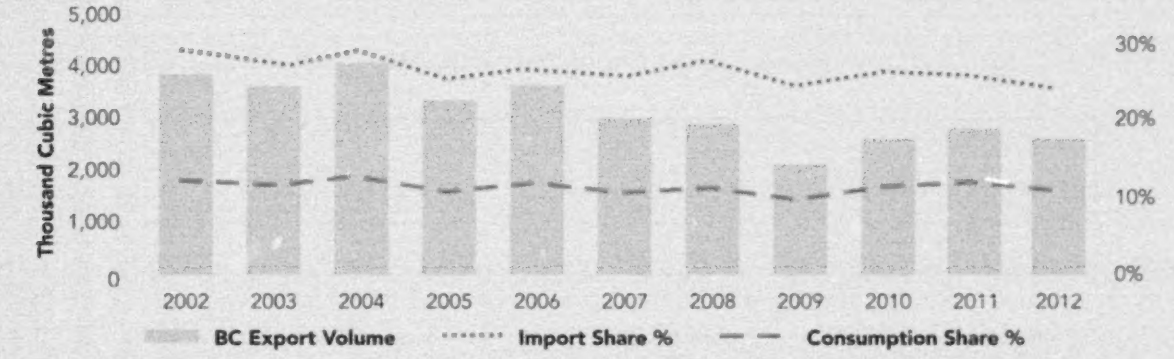
B.C. Softwood Commodity Product Sales in China* (Softwood lumber, plywood, OSB, MDF and particleboard)



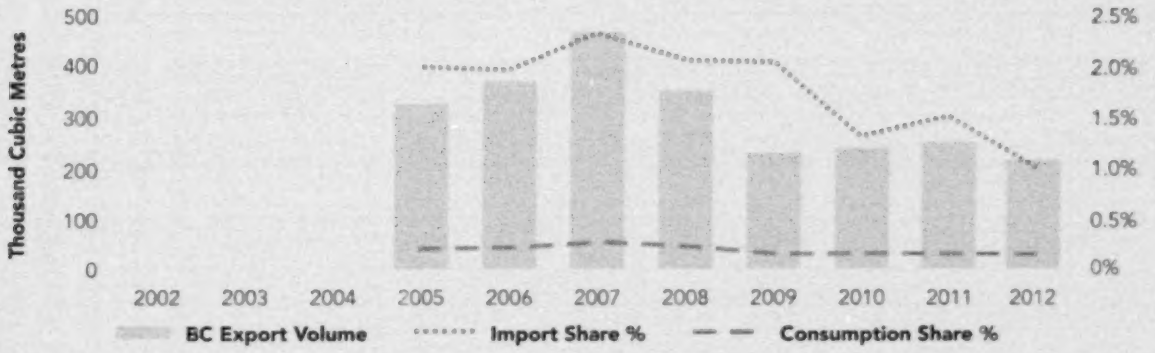
B.C. Softwood Commodity Product Sales in U.S. (Softwood lumber, plywood, OSB, MDF and particleboard)



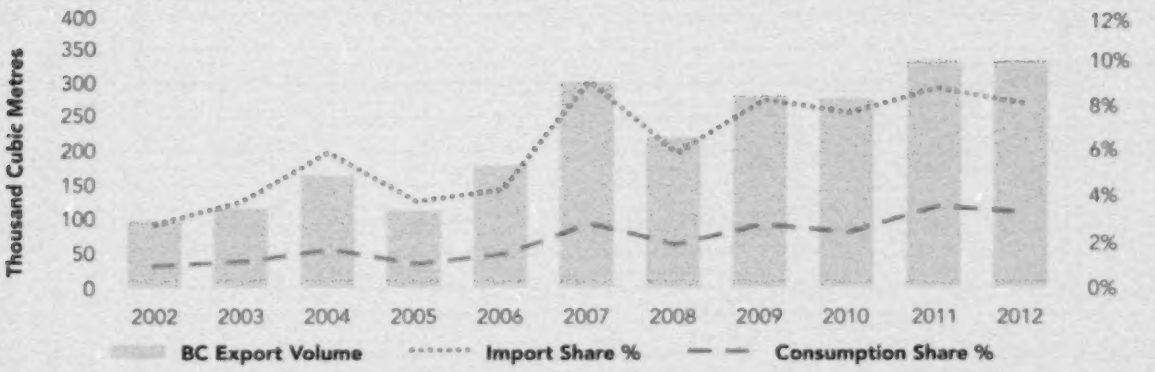
B.C. Softwood Commodity Product Sales in Japan (Softwood lumber, plywood, OSB, MDF and particleboard)



B.C. Softwood Commodity Product Sales in E.U.[4] (Softwood lumber, plywood, OSB, MDF and particleboard)



B.C. Softwood Commodity Product Sales in South Korea (Softwood lumber, plywood, OSB, MDF and particleboard)



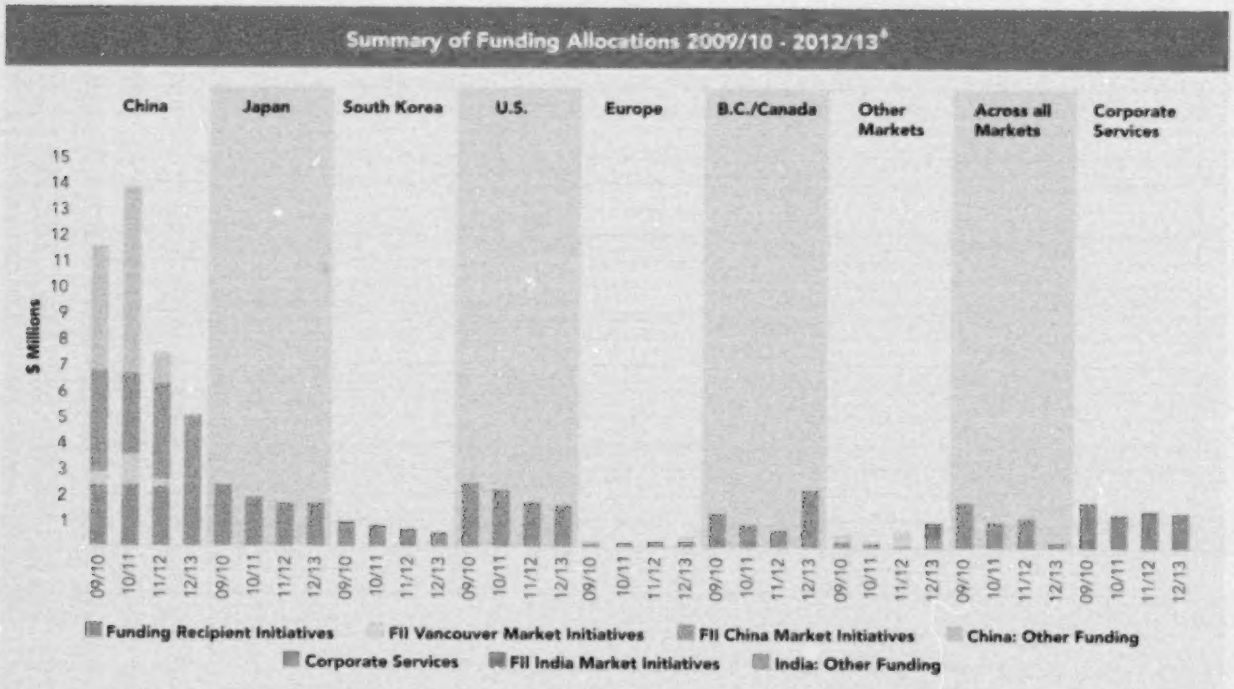
[4] B.C. Share of China's softwood products consumption was re-stated for 2011 from 4.9% to 3.8% based on actual consumption of 195 million m^3, up from the original estimate of 151 million m^3.

[5] Due to a change in data sourcing methodology, B.C. market share in the E.U. is only available from 2005.

Strategies to Support Goal 1

- Support the B.C. forest industry to develop and diversify markets for B.C. wood products in new and existing Asian markets by:
  - funding trade association market development programs based on priorities outlined in FII's annual Investment Strategy
  - initiating early stage market development efforts in emerging economies
- Partner with the federal government and work with B.C. and bi-national trade associations to expand the use of wood in the non-residential construction sector in North America.

Underpinning FII's approach to achieving Goal 1 objectives is the provision of core funding for marketing programs initiated and delivered by industry trade associations. Each year, roughly half of FII's budget is directed towards these activities. With the exception of China, the majority of spending in foreign markets is through trade association activities. Reflecting the objective to maintain, develop and diversify market demand, funding is spread across major and new markets as illustrated below:



[4] **Funding Recipient Initiatives** refers to funding provided to industry associations and other groups to carry out market development activities that they propose. Recipient Funding also includes funding for the Business Innovation Partnership. Amounts include associated program administration.
FII Vancouver Market Initiatives refers to funding for product and market development activities managed directly by FII, including market research, market outreach and demonstration projects. **FII China Market Initiatives** refers to activities directly managed by FII Consulting (Shanghai) Co. Ltd.
China Other Funding refers to funding provided by the B.C. Ministry of Jobs, Tourism and Innovation, the federal government (Natural Resources Canada) and other agencies. **Corporate Services** refers to FII's accounting and general office functions that support all program delivery. **India other Funding** refers to funding provided by the federal government (Natural Resources Canada).

	PERFORMANCE MEASURE		2010/11 Actual	2011/12 Actual	2012/13 Target/ Actual	TARGET		
						2013/14	2014/15	2015/16
A	B.C. Softwood Lumber Exports to Priority Asia Pacific Markets (000's of m^3)[1]							
	Consisting of:	China	4,562	7,343	8,900/7,506 (Not Achieved)	7,550	7,700	7,850
		Japan[2]	2,447	2,497	2,650/2,442 (Not Achieved)	2,775	2,900	3,000
		South Korea[2]	152	168	175/189 (Achieved)	220	265	290
B	Incremental Sales Generated in U.S. Non-Residential Market (millions of board feet)		298	257	400/115 (Not Achieved)	370	445	530
C	Incremental Sales Generated in the B.C. Non-Residential Market (millions of board feet)		61	61	75/72 (Substantially Achieved)	75	80	88

Performance measures and targets for Goal 1 were developed based on independent, third-party research on market potential, FII's internal market research, an assessment with industry trade associations of specific segments and market opportunities, and other projections made by FII in consultation with industry.

Importance of Measures

A: B.C. exports of softwood lumber to priority Asia Pacific markets

The measure tracks the extent to which the B.C. forest industry shifts its reliance away from the United States by selling to Asian customers over the longer-term. This is an indicator of market diversity and greater overall demand. The target is heavily weighted to sales in China, where FII investments have leveraged a significant joint industry and government (provincial and federal) market development effort. Export volume totals are based on Statistics Canada export data with export forecasts derived from published third-party analysis as well as FII and industry detailed market segment analysis. Data interpretation and forecasts are consistent with industry measurement practices.

Although growth in lumber export volumes to Asia has dampened with the slowdown in China, the overall volume and value of B.C.'s global lumber exports rose 6 and 10 per cent respectively in 2012 as recovery in the U.S. housing market pulled lumber demand and prices in North America upward.

China:
While exports to China, B.C.'s second largest export market, exceeded forecast by a wide margin (17 per cent above target) in 2011/12, exports to China did not meet the earlier volume forecast for 2012/13. As noted elsewhere in the Report, reduced growth in the construction sector in China, and sluggish exports of that country's manufactured products, have resulted in lower than anticipated consumption of wood and reduced imports of lumber from all sources. FII has revised growth forecasts for lumber exports to China downward to 2 per cent per annum for the period to 2015/16 in line with consensus expectations about the growth of wood consumption in China. Although growth in overall export volumes is expected to remain low for the period through 2015/16, B.C. lumber sales into the key higher-value wood frame construction segment continue to grow at a healthy pace. Forecasts are for the volume of higher value structural lumber consumed in wood frame construction to grow from 300,000 m^3 in 2012 to over 700,000 m^3 by 2015, an increase of over 130 per cent. Based on forecast pricing for China, this represents a potential market value of over $200 million in the wood frame construction segment by 2015.

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[1] Performance Measure A is broadly influenced by global economic conditions beyond the control or direct influence of FII or the provincial government (refer to discussion under "Risk and Capacity Issues"); however, export data provide a reliable indicator of overall progress by FII and its funding recipients in fostering market diversification.

[2] It should be noted that many specialty products formerly shipped from B.C. to Japan (e.g., Douglas-fir, cedar, Sitka spruce) are now often exported from B.C. to China, manufactured into value-added products, and re-exported to Japan. This is increasing B.C. export volumes to China while reducing shipments from B.C. to Japan. The trend is expected to continue and is factored into export targets.

[3] Lumber consumed in structural applications (residential, non-residential and additions).

Japan:
B.C. exports of softwood lumber to Japan were slightly below volume target for 2012/13 as Japan's housing market continues to feel the impacts of the global slowdown in economic growth. Reconstruction after the March 2011 Great Eastern Japan earthquake and tsunami has been slower than anticipated due to difficulties with site preparation and community relocation. Exports to Japan remain largely dependant on housing starts; however, an increasing volume of lumber will be directed to non-residential construction. Modest growth in housing starts is anticipated through 2015/16, although an expected increase in consumption taxes could result in a temporary softening of the market. Exports may increase beyond forecast for 2015/16 as a result of delayed earthquake/tsunami reconstruction. On the other hand, the Japanese government is clearly launching initiatives to favour utilization of plantations created just after the Second World War and which are now "coming on-stream". This portends diminishing reliance on imports, and strategies are being developed to counter this worrying trend.

Korea:
Performance in Korea is based on tracking the volume of B.C. lumber consumed in wood frame applications. Focusing on the wood frame construction market (as opposed to total exports) limits measurement confusion created by fluctuating volumes of low-grade B.C. product consumed in Korea's treated wood industry. The quality of Korea's domestic treating industry is poor and recent regulatory changes are now blocking B.C. products in this segment[10] which will likely result in a drop in the volume of low-grade product exported to Korea beginning in 2013/14.

Estimates for B.C. lumber consumed in wood frame construction are inferred from Korean government data on housing starts and floor area. Actuals for 2011/12 have been revised upward to 168,000 m^3 (from 164,000 m^3) and actual consumption for 2012/13 is estimated to have been 189,000 m^3, exceeding the Service Plan target of 175,000 m^3. Total growth potential for B.C. softwood lumber over the next five years is now estimated to be 20 per cent, with the majority of the growth coming from increases in the use of B.C. lumber in Korea's wood frame construction segment.

B: Sales into non-residential construction in the United States

This measure tracks success in introducing wood frame technology to the non-residential construction sector in the United States as a way of lessening the B.C. industry's overwhelming reliance on U.S. residential construction. The U.S. program figures are based on reports from the Wood Products Council (WPC), which tracks the volume of wood used in U.S. non-residential construction. Figures in the table above represent incremental wood volumes generated through program activities delivered by the WPC's WoodWorks program which is partially funded by FII.

The reported actual incremental sales generated in the U.S. Non residential market fell short of the 2012/13 target due to a number of market factors, including a softening of demand for wood products as prices rose during the year, and changes in how the program is delivered. However, the lower reported figure also reflects a significant change in the method used by the WPC to calculate the wood volumes influenced in non-residential projects. In late 2012, FII and Natural Resources Canada retained a third party to evaluate the WPC data collection and reporting methodology. The results of this review are now helping the WPC refine its reporting approach including new data on wood factor usage in a variety of building types, and an updated method for calculating program influence on wood use. These changes will provide a more accurate and consistent picture of incremental sales generated, though in the short term this may require re-stating performance targets to better reflect market realities.

C: Incremental sales generated in the B.C. non-residential market

This measure tracks success in increasing wood usage in the B.C. non-residential construction sector, a core objective of the province's Wood First strategy. Figures for B.C. are incremental wood volumes generated through program activities funded by FII in partnership with the Canadian Wood Council.

Incremental sales were lower than targeted in 2012/13, in part due to high demand for raw material in export markets and rising prices which stimulated material substitution. The target of 75 million board feet in the 2011/12 Service Plan was based on the framing lumber composite price ($329 per 1,000 board feet) at the time the targets were derived. Since the publication of the 2012/13 Service Plan, prices have steadily increased, such that forward looking targets for 2013/14-2015/16 were revised downward in the 2013/14 Service Plan to reflect a benchmark composite price of $375 per thousand board feet. Total project value and the number of projects influenced by the program have, however, continued to exceed targets.

[10] A number of B.C. species will not meet the new technical requirements for chemical treatment of wood (for preservation purposes)

Risk and Capacity Issues

The ability to achieve targets for Performance Measures A, B, and C is influenced by factors beyond the control of FII (see "Economic, Industry and Market Factors") and by the performance of the industry market development programs supported by FII. As part of the funding approval process, performance measures are set for each project. All of these measures are directly linked to FII's broader goals and targets. For more details, please refer to FII's Performance Management Framework at: www.bcfii.ca/about_fii/corporate_reports.htm.

FII had the staff and resources to manage the investment program supporting Goal 1 in 2012/13.

Select Highlights from 2012/2013

China: Improving the quality of wood frame buildings

FII China and Canada Wood China signed an agreement to assist Shanghai-based and state-owned Shanghai Industrial Investment Company (SIIC) with design, technical and wood frame construction quality support. The efforts have paid off as an 82-villa-and-clubhouse project recently passed the official audit under 3A—National Standard for Residential Building Performance Evaluation Technology Certification. Issued by China's Ministry of Housing and Urban-Rural Development and AQSIQ[11], the standard is one of the most recognized awards for building performance in China.

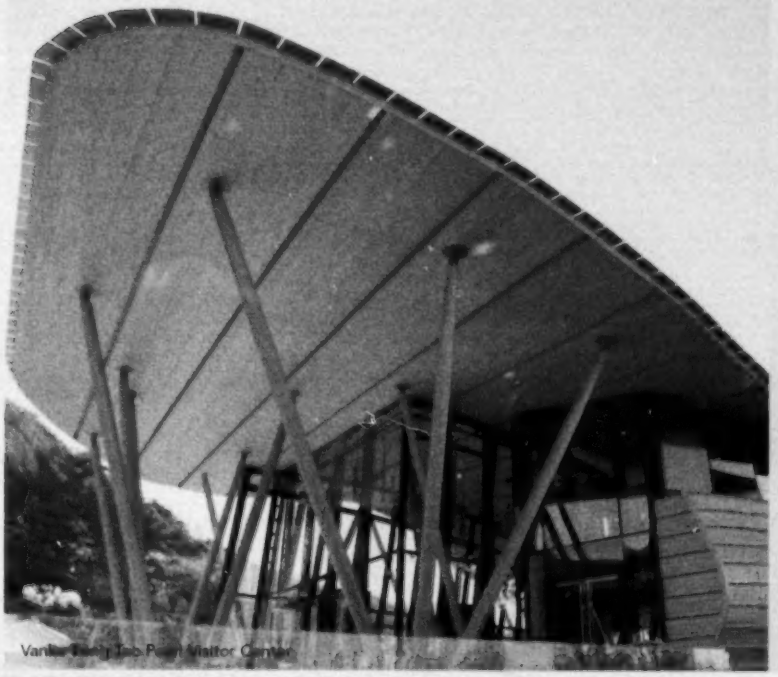
This year also saw the launch of new vocational schools and a partnership with China's Wood Frame Construction Industry Alliance to increase training opportunities for local contraction trades. Under this partnership, Canada Wood China will deliver technical training and support the development of local wood frame construction programs. In 2012/13 almost 7,000 building professionals received training via Canada Wood College and seminar programs. Canada Wood China also completed over 510 site visits to help local construction companies address construction quality issues.

Officials from FII, Natural Resources Canada and Canada Wood Group visit the SIIC wood frame project in Shanghai.

Building momentum – China's first Wood Frame Construction Association

Under the auspices of the Joint Working Committee of the Ministry of Housing and Urban-Rural Development (MOHURD), Canada Wood China and FII China helped establish the China Modern Wood Frame Construction Technology Industry Association, China's first industry association dedicated to promoting wood frame construction. Members include builders, developers, designers and timber suppliers. The association will cooperate with MOHURD to advance regulations favorable to wood frame construction and to increase knowledge and quality standards throughout the industry.

[11] General Administration of Quality Supervision, Inspection and Quarantine



Vanke Tianjin Tao Pearl Visitor Center

China: Providing Wood Frame Construction Technical Expertise to China's largest developers

With technical support from FII China and Canada Wood China, Vanke, China's largest developer, completed another significant wood frame project in the city of Qingdao. The one-storey 1,800 square meter heavy timber structure will serve as a visitor center and sales office for Vanke's latest development in the city. The building consists of a heavy timber glulam structure with curved 2x6 roof panels. Both the wood frame builder and structural engineering firm are based in Canada. All of the wood materials including glulam, J-grade SPF lumber and plywood were sourced from Canada.

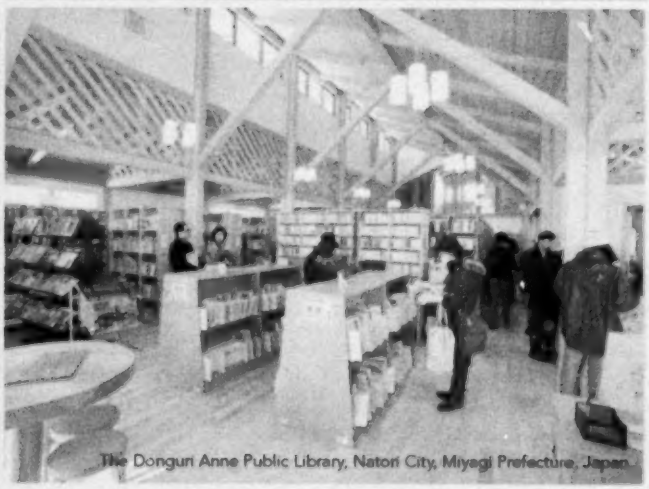
Japan: Canada Tohoku reconstruction project

On March 11, 2011 a 9.0-magnitude earthquake occurred off Japan's northeast coast in the area of Sendai. The earthquake and resulting tsunami caused mass fatalities, casualties and catastrophic loss of infrastructure. In response to the tragedy, four parties joined to donate substantial aid to finance wood frame reconstruction. The Province of B.C. contributed $2 million through FII, the Government of Canada provided $2 million through Natural Resources Canada, the B.C. forest industry donated $460,000, and the Government of Alberta donated $150,000.

Canada Wood Japan, acting on behalf of the funding partners, has managed two initial projects, a library and a public market in Natori. The first of these projects was the Donguri Anne Public Library, which opened on January 16, 2013. It features the use of new, advanced Canadian wood products developed specifically for Japan.

"Wood construction is particularly suited to the reconstruction program now underway in Japan. Modern wood-frame building systems are earthquake resistant and the small carbon footprint of wood products matches well with the Japanese preference for natural, green public facilities."

Glen Wilson,
then President of Vancouver-based Interfor Forest Products,
a major contributor to the reconstruction effort,
comments at the official opening of the
Donguri Anne Public Library



The Donguri Anne Public Library, Natori City, Miyagi Prefecture, Japan

India: Growing the Asian market for B.C. wood

In mid-2012/13, FII established a subsidiary company in Mumbai, India to lead a new market development program aimed at introducing B.C. and Canadian wood products to compete with India's imported tropical hardwoods. With funding support from the federal government, FII is completing work on a local office which will be a strategic co-location with the operations of the B.C. government's trade and investment representatives. The FII India team has initiated a series of activities and promotions in line with the market development strategy formed in partnership with members of the B.C. industry. One of these saw the largest forest industry mission ever to visit India, with 15 participants from B.C. attending the Delhiwood Show in January 2013. The FII India team organized a series of site visits alongside the tradeshow to help companies understand the end-user groups being targeted in India.

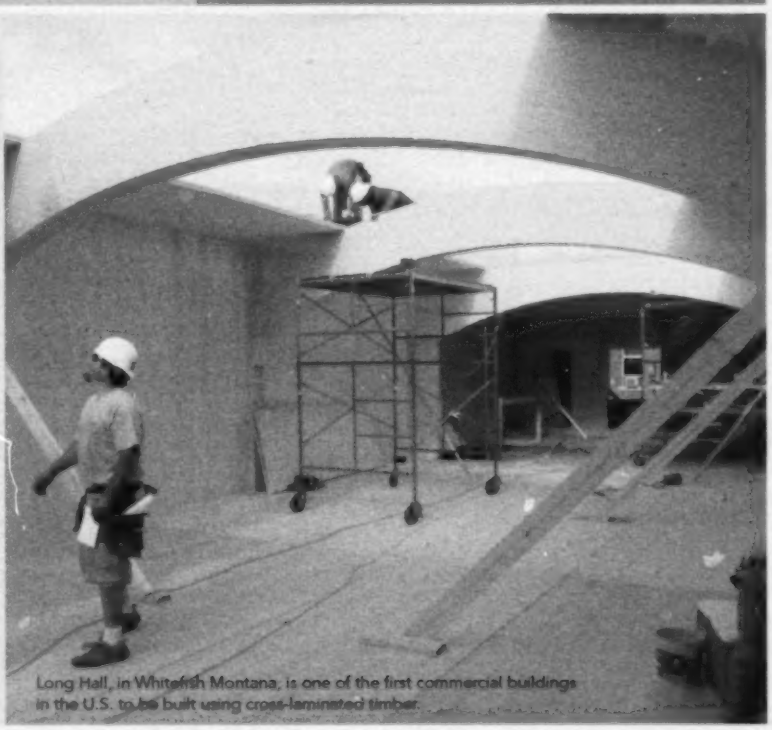
Michael de Jong, Minister of Finance speaks at the official launch of FII's operation in Mumbai, India

"While India is currently one of B.C.'s smaller markets for wood products, we're confident that with the establishment of an office there we can experience the type of success we had in China."

Steve Thomson, Minister
Forests, Lands and Natural Resource Operations

United States: Non-residential market

With increasing interest among engineers and architects in the U.S. regarding the use of cross-laminated timber (CLT), the U.S. Woodworks program is helping to broaden use of CLT. Working closely in partnership with FPInnovations, the program launched a new U.S. version of the CLT Handbook (already available in Canada) with updated information and specific data relative to U.S. building codes and potential uses of CLT. The Handbook was launched at the first ever CLT Symposium in Seattle, Washington in February 2013 which presented a variety of technical and project related presentations to an audience of building professionals.



Long Hall, in Whitefish Montana, is one of the first commercial buildings in the U.S. to be built using cross-laminated timber.

GOAL 2 POSITION WOOD AS A PREFERRED BUILDING MATERIAL AND B.C. AS A GLOBAL LEADER IN WOOD INNOVATION

Goal 2 had two primary objectives in 2012/13. The first was to expand opportunities for B.C. forest products by positioning wood, and wood products from B.C., as the first choice for environmentally friendly building materials. Strategies related to this objective create a foundation for answering the questions "why wood?", and "why wood from B.C.?" – upon which many of FII's other market development investments and activities are based.

The effort takes advantage of two significant trends in the marketplace – the emerging recognition of wood products as "green" and increasing demands from consumers for forest products that are produced in an environmentally-responsible manner. As customers are factoring environmental practices into purchasing decisions, there is considerable value in articulating the benefits of wood as a sustainable, renewable building material; its advantages in creating a significantly smaller environmental footprint than other building materials; and the fact that wood and pulp and paper products from B.C. are manufactured by an industry that has made impressive gains in reducing its environmental footprint. Strategies in support of this objective built on the growing awareness of the benefits of wood products, and helped position B.C. as a global leader in sustaining forest resources and environmental values. This dual positioning helps strengthen awareness of, and interest in, B.C. forest products in major markets and, in turn, supports greater market share, premium positioning, and easier access to new markets.

The second objective under Goal 2 supported the Government of B.C.'s directive to generate greater value in the forest economy. The objective acknowledges that long-term sustainability of the forest economy includes maintaining and building sales, as well as driving up the value of sales through the introduction of new, innovative forest products, advanced wood technologies, and new building systems. Strategies to achieve this objective were delivered primarily through FII's Wood First initiative and focused on expanding the use of wood products, technologies and services within B.C., and on creating a cultural preference for building and living with wood.

Strategies to Support Goal 2:

- Establish B.C. as a leader in wood use and innovation by leading B.C.'s Wood First initiative to:
  - increase wood use in public construction in B.C.; and
  - advance a "pro-wood" culture in B.C.
- Advocate for the B.C. forest sector by encouraging international regulators to accept B.C./Canadian products and forest practices.
- Champion science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies, including wood's environmental and social benefits.
- Position B.C. as a leading global supplier of quality, environmentally responsible forest products and building solutions.

	PERFORMANCE MEASURE	2010/11 Actual	2011/12 Actual	2012/13 Target/ Actual	TARGET		
					2013/14	2014/15	2015/16
D	Per cent of allowable floor area (B.C. Government buildings) built with wood	32%	n/a	49% / 18% (Not Achieved)	n/a	54%	n/a
E	Per cent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment	98%	98%	90% / Survey moved to 2011/12 (Achieved)	90%	n/a	90%

Importance of Measures

D: Percentage of Allowable Floor Area Built with Wood

This measure tracks structural wood use in publicly-funded buildings in B.C., an indicator of progress in meeting the objectives of the Wood First Act. The measure is the ratio of the total floor area built with wood to the total floor area that can be built with wood under the B.C. Building Code.

The target for performance measure D was not met in 2012/13. The performance measure is based on data compiled by FPInnovations which benchmarks wood use in new public, non-residential, construction in B.C. FPInnovations substantially adjusted its research method for 2012/13 to more accurately reflect actual wood use in publicly-funded construction. As a result, FPI has also re-stated floor area in structural wood for 2010/11 to 32 per cent (from 47%). For 2012/13, the allowable floor area built with wood was 18 per cent. While this was significantly below the re-stated figure for 2010/11, the sampling size for publicly-funded non-residential buildings remains relatively small, which exposes results to large fluctuations when viewed on a percentage basis. Such was the case for 2012, where the percentage of wood use in a single category, "educational buildings", significantly impacted results across all publicly-funded construction. Because the current measure tracks only wood used in structural applications and does not account for the significant and growing use of wood in architectural and appearance applications, additional measures are being evaluated to broaden tracking of the Wood First Initiative.

E: Positioning British Columbia as a preferred global supplier

The measure provides an indication of the effectiveness of FII's international advocacy and communications initiatives to influence customer perceptions of B.C. and its forest management practices. Performance data are gathered through a bi-annual survey of international customers conducted by an independent research firm. The survey originally scheduled for 2012/13 was shifted ahead to early 2012. The results showed that 88 per cent of respondents view Canada, led by B.C., as "favourable" in terms of environmental practices, and a further 10 per cent felt that practices were at least average. None viewed Canada/B.C. as unfavourable.

Risk and Capacity Issues:

FII had the staff and resources to pursue Goal 2 objectives in 2012/13.

Select Highlights from 2012/2013

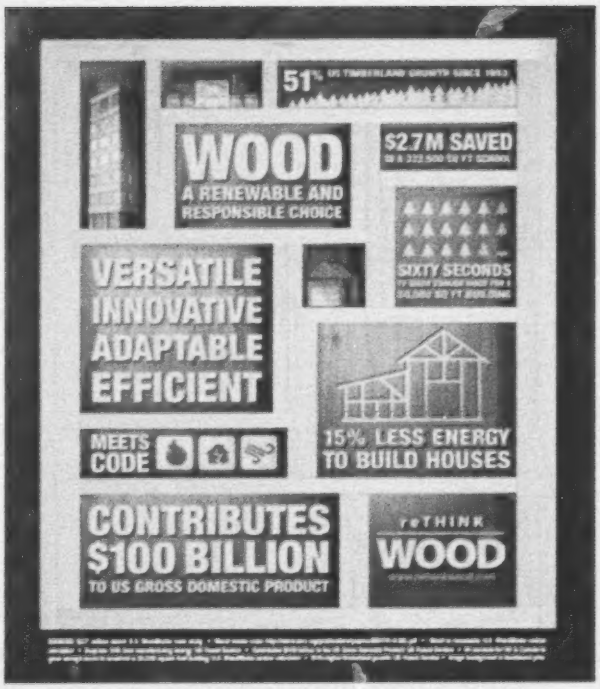
Growing Demand for Wood - reThink Wood & the North American Wood Products Industry

Architects and engineers play a key role in the design of mid-rise multifamily and non-residential buildings, including recommending building products, assessing the environmental impact of building structures, and specifying products that fit with the overall priorities of a given developer. As such, architects and engineers are the primary audience for the program called reThink Wood, a comprehensive, fact-based, and peer-driven pro-wood outreach effort across North America.

FII cost-shared the reThink Wood program in 2012/2013 with the Binational Softwood Lumber Council and the Softwood Lumber Board.

Since its launch in 2011, reThink Wood has found success in reaching its audience through many interactive tools and media. reThink Wood has also found success in dovetailing its message with new and existing continuing education units (CEUs) for professionals. In 2012, more than 6,600 architects completed over 8,000 tests on at least one of the reThink Wood CEUs.

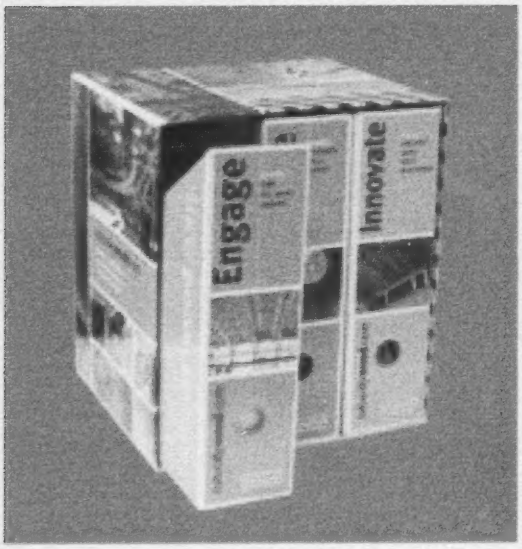
reThink Wood also generated over 8,300 qualified leads, 4 million print and online impressions and 9,000 + followers on social media.



reThink Wood infographic advertisment, 2013

Championing B.C. Forest Products & Building Systems

Through a mix of traditional, online, and social media, FII is generating greater awareness than ever of B.C. wood products. This "transmedia" storytelling increased traffic to FII's naturallywood.com web site by 30 per cent, leading to more than 1,400 requests for technical advice from buyers and 5,600 searches for B.C. value-added manufacturers of wood products.



Online videos available through the naturallywood.com YouTube channel were very popular, with views up 40 per cent in 2012/13. In addition to 7,358 downloads, more than 24,000 publications were distributed in 2012/13 (including both naturallywood.com and reThink Wood materials) to over 35 organizations and events (architect, industry, government, academic).

Advertising, both in print and online, reached 1.3 million readers and viewers. This generated over 2,100 unique page views to the FII website and 239 requests for more information about B.C.'s forest practices and products, including requests for FII's Architect Toolkit.

With partners such as Canada Wood Group, the Canadian Wood Council, B.C. Housing and a number B.C. industry associations and companies, FII also helped arrange and host eight incoming missions in 2012/13 with almost 100 participants from China, Korea, Mongolia and Europe. Key themes were forest management and reforestation, B.C. product innovations and signature buildings using wood such as in the 2010 Olympic and Paralympic Winter Games venues.

Surrey Pretrial Centre, Surrey B.C.

Wood First - wood use in public infrastructure

A key component of the Wood First Initiative, the Wood First Act received Royal Assent on October 29, 2009. The Act requires wood to be considered as the primary building material in all new publicly-funded buildings in B.C., when supported by the British Columbia Building Code. Since 2009, many new projects across government have incorporated a large amount of wood into the building design. In 2012/13 FII supported these efforts by coordinating with the Procurement Working Group, a committee of ministry officials involved in capital planning, to share information on building with wood and to build a knowledge base related to design, tendering and procurement guidelines.

A particularly innovative application of wood in public construction was demonstrated in 2012/13 with the use of wood in sound abatement walls for highway construction, including the new Port Mann Bridge. Compared to concrete, the wood barriers are lighter, easier to build, cheaper and preferred by nearby residents who appreciate their natural appearance. Another creative application of wood is demonstrated by the new Surrey Pretrial Centre. While correctional centres require extensive use of reinforced concrete, wood was incorporated in the design to create a better working environment for staff and better living conditions for inmates.

Local government support

Since the launch of Wood First, local governments have endorsed the initiative by passing resolutions and bylaws, and by updating their procurement policies and guidelines. As of April 2013, 51 local governments across B.C. have formalized their support for Wood First through council-approved motions or votes.

Building up with wood

Changes to the B.C. Building Code introduced in 2009 increased the maximum height for wood-frame residential construction from four to six stories. Since the changes were implemented, the demand for wood-frame mid-rise buildings has been steady. Currently, about 200 mid-rise wood-frame projects across B.C. are completed, under construction and/or in the design stage in order to take advantage of wood's cost effectiveness, design flexibility and consumer appeal.

Quattro3 by Tien Sher Construction, Surrey, B.C

GOAL 3 MAINTAIN FII AS A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE ORGANIZATION

During 2012/13, FII continued its commitment to sound business practices incorporating robust financial controls, and a performance management framework that includes monitoring, audit and evaluation built on a comprehensive risk-assessment strategy. All of these elements reflect government policies and best practices. FII also maintained its commitment to a path of environmental sustainability by minimizing its environmental footprint.

During the year, FII placed significant emphasis on delivering its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies. By doing so, FII was able to leverage the expertise and financial resources of key players across the Canadian and international forest sectors and to create critical mass in the development and delivery of strategic and focused market and product development programs.

The Strategies to Achieve Goal 3:

- Ensure FII is efficient, transparent and results focused by:
  - keeping corporate support costs at or below 7 per cent of total budget;
  - implementing a rigorous performance management system; and
  - monitoring and auditing funded projects according to explicit risk assessments.
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector's economic and social benefits to British Columbia.
- Maximize the financial contributions of key partners to core programming.
- Minimize FII's carbon footprint and promote environmentally responsible business activities.

Select Highlights from 2011/2012

Maximizing Leverage and Impact

In 2012/13, every dollar FII invested in partnered market development and Wood First activities ($8.5 million in total) attracted $2.70 ($23.4 million in total) of funds from other organizations.

In addition to investments in established program activities, FII also acts on behalf of the Government of B.C. to partner with other governments and with industry to deliver special initiatives in offshore markets. For example, during 2012/13, the first project under the Canada Tohoku Reconstruction Project in Japan was completed by Canada Wood Group, with financial support provided by FII, Natural Resources Canada, the forest industry and the Province of Alberta.

Streamlining Processes

During the year, FII designed and implemented a new system to reduce paperwork for recipients involved in the Market Initiatives program. The program funds industry organizations to deliver market development and market access programs based on an annual budget estimated in January each year. Previously, whenever recipient organizations needed to adjust their budgets as projects changed, a 5-step process was required to revise funding agreements with FII. Through administrative efficiencies, FII has reduced this to a much simpler 3-step process that saves recipient organizations' administrative time and costs.

Performance Targets

	PERFORMANCE MEASURE	2010/11 Actual	2011/12 Actual	Target/ Actual 2012/13	TARGET		
					2013/14	2014/15	2015/16
F	Timeliness of annual funding cycle for trade associations, research institutes, and universities	Competitive funding process was completed by April 1	Competitive funding process was completed by April 1	Competitive funding process to be completed by April 1 / Process completed by April 1st	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1
G	Partner contribution to annual recipient funding program	64%	65%	65% / 66% (Achieved)	65%	65%	65%

Importance of Measures

F: Timeliness of Annual Funding Cycle

Each year, approximately half of FII's budget is used to fund activities proposed through two annual Calls for Proposals, one for market development and the other for Wood First. These processes typically attract over 50 proposals describing hundreds of activities and detailing specific cost estimates and cost sharing. Proposals are peer reviewed and point-ranked against pre-set evaluation criteria. Performance Measure F tracks how efficient FII is in managing the annual funding process, a key objective of which is to ensure that funding is available to successful proponents by the start of each fiscal year. Performance target F was met in 2012/13.

G: Partner Contributions

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs on behalf of the Government of B.C. The willingness of industry partners, the federal government and other provincial governments to contribute to market development activities is a direct indicator of the value placed on these activities, particularly at a time of severe resource constraints. Data to support the measure is sourced from the on-line recipient program system, which is co-funded and managed by FII and Natural Resources Canada, and through FII's year-end financial analysis. Performance target G was met in 2012/13.

Risk and Capacity Issues:

FII had the staff and resources to pursue Goal 2 in 2012/13.

Economic, Industry and Market Factors

The following factors were listed in FII's 2012/2013 – 2014/2015 Service Plan as risks and opportunities that could potentially influence the ability of FII to achieve its goals and targets. The table has been updated to report on the actual impact as well as the actions taken by FII in fiscal 2012/13 to mitigate risks and take advantage of opportunities. In some cases the impact is reported for calendar year 2012 due to the way that international market data are gathered and reported by Statistics Canada and other national statistics agencies.

RISKS & OPPORTUNITIES	IMPACT	FII RESPONSE
U.S. HOUSING MARKET		
• Risk: Continued weakness in the U.S. housing market.	• In calendar year 2012, B.C. exports to the U.S. grew by 11.2 per cent in volume and more than 25 per cent in value, reflecting a strengthening housing market that drove up lumber prices. • While the housing market is rebounding, high levels of U.S. government and consumer debt still pose risks to long-term stability. • Market diversification remains a relevant strategy.	Goal 1 market development: • Continued to develop offshore markets, such as China. • Established a presence in India to begin pre-commercial market development. • Continued to build demand for wood in non-residential and multi-family residential sectors, in which wood frame technology historically has been a minor component compared to single-family housing.
DEMAND FOR WOOD IN ASIA		
• Risk: Global market uncertainties may result in reduced growth in key Asian markets.	• China's overall demand for wood products was up in 2012 despite a slowdown in economic growth. While the dramatic run-up in China's demand for lumber cooled during the year, B.C. export volume was up 2.3 per cent to reach another record high at 7.4 million m3. As global growth remained sluggish across 2012, B.C. exports to Japan and South Korea were relatively flat.	Goal 1 market development: • Pursued market segments that are less subject to cyclical fluctuations (e.g., the Chinese government's "affordable housing" program). • Continued to diversify market development across multiple segments such as multi-family, non-residential and resort development. • Continue market development initiatives in other Asian markets, notably India, and in the non-residential and multi-family residential sectors in North America.
• Opportunity: The Chinese Government has called for cooperation with Canada on the adoption of modern wooden structures to address energy consumption and greenhouse gas emissions.	• Chinese authorities continued to focus on modernizing construction practices. Wood frame construction has been identified as offering potential solutions.	• During 2012/13, FII continued to work under the MOU with the Chinese Ministry of Housing and Urban-Rural Development to promote the superior environmental performance of wood frame technology.

RISKS & OPPORTUNITIES	IMPACT	FII RESPONSE
DEMAND FOR WOOD IN EUROPE		
• Risk: Weak economic growth in Europe continues to dampen overall consumption of wood.	• Sales of B.C. softwood products to the EU fell again in 2012 in the face of weak demand and excess domestic supply. Poor domestic markets are forcing EU manufacturers to advance efforts in export markets, aggressively competing with B.C. producers.	Goal 1 market development: • Aggressively pursue market diversification by building demand in Asia and in the non-residential sector in North America. Goal 2 Wood First / Positioning B.C. forest products: • Invest in innovative products and building systems such as CLT and tall wood construction to better position B.C. in the engineered wood segments. • Continue to work with EU government and non-governmental organizations to position forest products from B.C. as good for the environment.
MARKET DEVELOPMENT FUNDING		
• Risk: Federal funding for the Canada Wood Export Program (CWEP) expires at the end of 2011/12.	• Federal funding was renewed through 2014/15, but with a gradual reduction in the overall level of funding.	Goal 3 organizational effectiveness: • Led discussions with other provinces regarding financial participation. • Worked with the North American forest industry to implement a new "check-off" levy administered by the U.S. Department of Agriculture to generate substantial funds for an industry-led promotional program in the U.S.
• Risk: Industry financial capacity.	• Industry output grew in 2012, but budgets for trade associations remained constrained due to continued cost pressures on member companies.	• Worked with funding recipients to streamline program costs. • Continued to encourage B.C. firms to increase their financial contributions to market development programs.
ADVANCES IN BUILDING SYSTEMS AND PRODUCTS		
• Risk: Non-wood products threaten value-added wood products.	• Buildings systems and products are constantly evolving, creating shifts in consumer interest and demand.	Goal 2 Wood First: • Through the Wood First initiative championed innovation in wood products manufacturing and design, and in advanced building systems.

RISKS & OPPORTUNITIES	IMPACT	FII RESPONSE IN 2011/12
ADVANCES IN BUILDING SYSTEMS AND PRODUCTS (CONTINUED)		
• Opportunity: New wood products and building systems provide entry into emerging building segments.	• Wood products and building systems are more competitive in larger building (commercial, institutional) markets, implying significant growth potential. • As of March 2013, approximately 200 six-storey wood-frame buildings are under development in B.C. • Over 50 local governments in B.C. have adopted "Wood First" resolutions.	• Continued to support research into innovative building systems that allow taller, larger buildings to be built with wood. This builds on the release of "The Case for Tall Wood Buildings", a landmark study funded by FII that illustrates how mass timber products and new designs are making possible wood buildings as high as 30 stories. • Promoted cost competitiveness of wood construction and products to the development sector, highlighting new construction techniques and products, such as cross-laminated timber.
CHANGING ATTITUDES TOWARDS THE ENVIRONMENT		
• Risk: Consumers sensitivity towards global forest practices and resulting drop in demand for forest products.	• Greater consumer awareness of climate change is creating sensitivity on forest practices, which may lead to a reputational risk and consumer resistance in purchasing wood products.	Goal 2 benefits of wood: • Collaborated with government and industry partners in Canada and the U.S. to promote the benefits of wood as a product that regenerates naturally and, when managed sustainably, supports reduced energy consumption and greenhouse gas emissions. • Continued to position high environmental standards of B.C. forest practices to customers and consumers in key markets.
• Opportunity: Consumer shift towards green products.	• Greater consumer interest in green products can increase market demand for B.C. wood products, particularly for value-added products from sustainably managed forests.	• Emphasized sustainable, green nature of wood products through targeted programs in key markets, with particular focus on the U.S., and positioning of B.C. wood products in promotional programs.
COASTAL INDUSTRY		
• Risk: Soft market demand for hemlock and amabalis fir (hemfir).	• While the total volume of B.C. softwood lumber exports increased to 24.2 million m^3 in 2012 from 22.8 million m3 in 2011, exports of Hemlock decreased to 1.3 million m^3 from 1.5 million m^3 in 2011.	Goal 1 market development: • Supported market development in Japan targeted to hemfir products. • Explored new market opportunities for hemfir, especially in India. • Funded Western Red Cedar promotion to strengthen sales of the other major species from the coast.

Changes to Goals and Performance Measures since Publication of 2011/12 - 2013/14 Service Plan

In 2012/2013, FII undertook a strategic review of its operations. The timing was considered opportune because such a review had not occurred in more than five years. As well, a number of structural changes needed to be integrated into FII business planning, including a shift in the mandate of FII China, the creation of a subsidiary in India, and the expansion of FII's mandate to include Wood First.

Out of this review, FII updated its mission, vision, and values statements, and created its first formal strategic plan. These changes were reported in the 2013/2014 – 2015/2016 Service Plan.

The goals for the organization were updated to align with the business direction outlined in the 2013/2014 Government's Letter of Expectations. This change increased the number of goals to four from three, with one goal for each of the major areas of business activity (market outreach, market development, and Wood First) as well as one related to administrative and management effectiveness. Targets for the goals were adjusted accordingly. The new series of goals are:

> Goal 1: Wood is viewed as an environmentally friendly, preferred building material and B.C. is recognized as a reliable supplier of quality products from sustainably managed forests.
>
> Goal 2: Sales of B.C.'s conventional and emerging forest products are greatly expanded in markets offering high potential returns.
>
> Goal 3: B.C. is a world-class centre of excellence in developing and using innovative wood products and building systems.
>
> Goal 4: FII serves its stakeholders in a highly effective, innovative and responsive manner.

Results against these goals will be reported in the FII Annual Service Plan Report for 2013/2014.

Corporate Environmental Responsibility

FII is committed to environmental sustainability in order to protect the natural environment and the B.C. economy for future generations. This approach allows FII to continue delivering short- and long-term benefits to stakeholders, employees and the communities where FII operates, while enhancing the capacity to conduct business. FII has established two overarching priorities as the basis of its environmental responsibility policy:

- reducing the intensity of the organization's environmental footprint, and
- promoting environmentally responsible business activities.

In 2012/13 these actions included participating in "Green Tenant Teams" in association with Bentall Management (property managers of the FII office in Vancouver) and BC Hydro's Power Smart program. Computers and other equipment were replaced with Energy Star rated equipment through attrition. Increased use of social media and digital storage helped to reduce the demand for printed materials while a recycling program ensured paper and related products were re-purposed.

In 2012/13, FII continued to achieve carbon neutrality through initiatives to reduce energy and carbon consumption and through the purchase of 156 tonnes of carbon credits from the Pacific Carbon Trust.

Details on the actions being taken in support of the policy are posted at: www.bcfii.ca/aboutus/corporate/corporate-reports.

Government's Letter of Expectations[15]

FII's sole shareholder is the Province of British Columbia. Through a Government's Letter of Expectations (GLE), signed by the Minister of Jobs, Tourism and Innovation in January 2012, the Province confirmed the mandate of FII in 2012/2013 was to:

- position British Columbia as a global supplier of world-class environmentally friendly forest products;
- actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- work with the forest industry to promote B.C.'s world-leading forest products and forest management to the global marketplace; and
- help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

In working to achieve its mandate, FII was directed to ensure operations and performance are consistent with the government's strategic direction and that they meet key performance expectations. Details on these directives are available at: www.bcfii.ca/aboutus/corporate/corporate-reports.

The following table summarizes the specific corporate accountabilities included in the GLE, and the relevant action response by FII: [17]

GLE DIRECTIVE	ACTION RESPONSE
Achieve the following sales of softwood lumber in 2012/13: To China: 7.9 million cubic metres	China: • Sales in calendar year 2012 were 7.5 million cubic metres, up 2.2 per cent from 2011, but slightly below the GLE directive due to slower economic growth in China and the resulting slowdown in commercial and residential construction. • In 2012/13, the Canada Wood Group, a collaboration of industry trade associations, led a number of commercial market development activities in China with funding from FII. These included promotion, technical training, tradeshows, construction quality assurance, and addressing barriers to market entry such as building/fire code limitations, as well as competition from products manufactured by B.C.'s competitors. • FII focused on managing outreach and relationship building with Chinese authorities and central government agencies as a continuation of an ongoing program to broaden awareness and support for wood building systems, and to support trade missions. • The general strategy in China continued to focus on introducing wood building systems and structural and appearance grade products to take advantage of high potential construction applications. These include mid-rise and multi-family construction, wood "in-fill" in high-rise construction, wood truss roofing, wood-hybrid construction and other high potential structural wood applications.

[17] Note that sales targets in the 2012 GLE were different from those in the 2012/13 – 2014/15 Service Plan because the GLE was more current in reflecting significantly changed circumstances in Asian economies.

GLE DIRECTIVE	ACTION RESPONSE
To Japan: 2.4 million cubic metres	**Japan:** • Sales in calendar year 2012 achieved the GLE directive of 2.4 million cubic metres, approximately the same volume as in 2011. • FII worked with industry to develop niche opportunities in elderly care facilities, post-and-beam, and 2x4 wood frame construction and value-added products. Under the FII-funded "Living and Building with Wood" strategy, B.C.'s value-added producers focused on building market share through the promotion of innovative architectural and interior products. • Work in 2012/13 continued to focus on ensuring optimal building and fire codes and standards to accommodate the use of western red cedar and hemfir. Initiatives were undertaken to develop construction guides and undertake testing for applications of cedar, hemlock and OSB in Japan to ensure B.C. maintained its position as a preferred supplier. • Following the devastating earthquake and tsunami in March 2011, the Government of B.C., committed a total of $2 million to assist in reconstruction efforts, leveraged by a further $0.46 million from industry, $2 million from the federal government, and $150,000 from the Government of Alberta. The first building funded through the project, the $725,000 Donguri Anne Public Library, opened in January 2013. The second project, the Yuriage Public Market, opening on May 4, 2013.
To South Korea: 204,000 cubic metres	**South Korea:** • Total B.C. exports of softwood lumber in calendar year 2012 were 305,000 cubic metres, surpassing the GLE directive, an increase of more than 3 per cent over 2011. • Canada Wood Group, with FII funding support, focused on building markets for structural lumber, panel products and value added products. The program also targeted housing construction in satellite and second-tier cities. • To take advantage of high levels of Korean interest in the environment and "healthy" buildings, B.C. wood products and wood frame construction were positioned as a sustainable healthy alternative to other building materials. An added benefit of this campaign was that it leveraged Korean preferences for wood in their traditional home design.

GLE DIRECTIVE	ACTION RESPONSE
Generate 400 million board feet of incremental lumber sales in the United States non-residential construction sector.	• Results in 2012/13 (115 million m^3) were significantly below the GLE directive due to significant changes in the service delivery organization, available budget, and the methodology employed by the Wood Products Council to estimate incremental sales generated (refer to the detailed discussion under Goal 1). • In 2012/13, FII worked closely with the Binational Softwood Lumber Council and Natural Resources Canada to provide support for the development of non-residential wood construction in the United States. • FII provided core funding of approximately $700,000 for the Wood Products Council (WPC) and its partner agencies which leveraged a $4.5 million effort to target architects and designers, pursue national level opportunities with major end users, and stimulate the sale of wood products in major national chain stores. • Opportunities were explored to increase wood use in non-residential construction using both traditional wood frame construction and innovative systems, such as cross-laminated timber (CLT) and hybrid wood-concrete construction.
Generate 75 million board feet of incremental lumber sales in the B.C. non-residential construction sector.	• Current levels of wood use in non-residential construction were documented as a baseline against which to track the impact of promotional investments. • Incremental sales to the B.C. non-residential sector were 72 million m^3 in 2012/13, which substantially achieved the GLE directive. Slightly lower than forecast results reflected the rapidly escalating price for lumber and a resultant increase in product substitution. • As of March 2013, approximately 200 six-storey wood-frame buildings are under construction or development in B.C. • In 2012/13, through the Wood First program, FII funded market development programs to raise awareness of wood building systems and new wood technologies, like cross-laminated timber, for use in non-residential projects. • FII oversaw the Procurement Working Group, a committee of capital planning officials from provincial ministries, to support compliance with the Wood First Act. The Act stipulates that wood should be considered as the primary building material in provincially-funded building projects, if the use complies with the provincial Building Code. • In 2012/13 FII continued its partnership with Natural Resources Canada to pursue wood use in non-residential construction via the WoodWORKS! BC program. Achieving greater penetration of six-storey and other multi-unit construction across the province was a priority.

GLE DIRECTIVE	ACTION RESPONSE
Ensure that 90 per cent of customers feel that choosing forest products from B.C. is a good choice for the environment.	In 2012/13, FII focused on the following activities: *Market access and acceptance*: Lead on government-to-government relations with respect to market barriers and market acceptance initiatives, particularly in respect of forest management and environmental impact. *B.C. forestry and wood products communication*: Provided independent, commercially-neutral promotion of the performance and environmental merits of wood and the B.C. forest sector in order to help maintain a base of support that underpins specific product/market messaging delivered by B.C. companies and industry associations. *Media monitoring and issues management*: Monitored developments and trends as they relate to environmental and social responsibility policy that may impact the ability of B.C. producers to access domestic and foreign markets.
Work with the Shareholder to assess the ongoing mandate for FII, including the implications to the FII mandate of closing the FII China portion of the organization in favour of direct industry marketing initiatives.	• In 2012 FII, created its first formal Strategic Plan, updating its mission, vision, and values statement, and laying out priorities and strategies for the coming years. These changes were approved by the Board of Directors and used in preparing the 2013/2014 – 2015/2016 Service Plan. • During 2011/12, FII completed a review of its operations in China, and as a result, transferred responsibility for select market development activities to the Canada Wood Group in 2012/13. FII retained the lead in managing outreach and relationship building with Chinese central and local government agencies, and major state-owned development companies. FII also retained key responsibilities for providing engineering and design support to the development community.
Comply with Governments requirements to be carbon neutral under the Greenhouse Gas Reduction Targets Act.	• In 2012/13, FII continued to achieve carbon neutrality through initiatives to reduce energy and carbon consumption and the purchase of 156 tonnes of carbon credits from the Pacific Carbon Trust.

Management Discussion and Analysis

FII began the year expecting to spend a total of $18.4 million based on:

- $17.8 million in funding from the then Ministry of Jobs, Tourism and Innovation which includes $0.55 million restricted to capital purchases.
- $0.6 million for India Market Development, provided by Natural Resources Canada.

Actual expenditures (including non-cash items), compared to the previous year, were as follows:

	2012/13 $ MILLION	2011/12 $ MILLION
Actual costs:		
- cash	17.024	21.508
- amortization	0.128	0.193
- TOTAL	17.152	21.701
Payments to other organizations based on annual Calls for Proposals	$8.50 million, or 49 per cent of total expenditures	$7.60 million, or 35 per cent of total expenditures

The actual cash expenditures of $17.024 million are exclusive of $0.5 million of capital assets purchased during the year. The majority of these capital assets are leasehold improvements and office furniture to outfit FII's new shared office in India. This was offset by a cash contribution of $0.55 million from Natural Resources Canada as part of its contribution towards the India market development effort.

FII's payments to funding recipients covered 36 per cent of the total cost of their projects, with the Government of Canada and other funders contributing 40 per cent and the funding recipients contributing 24 per cent.

Funding recipients ultimately spent $8.5 million, which was 10 per cent less than was committed to them at the beginning of the year. The 10 per cent under-spending is driven by cost savings in the Market Development Program projects as well as activities that had to be scaled back, delayed or cancelled due to market factors. Previously claimed expenses of $0.2 million in 2011/12 were deemed ineligible as a result of the 2011/12 recipient program audit and were credited against the total 2012/13 recipient costs for the year.

In total, FII's final net under-spending was $0.65 million relative to the initial plan. $0.448 million of this under-spend was attributable to funding recipients' post-year-end turn back of unspent advances.

Looking Ahead

Budget Allocations

For 2013/14, FII anticipates receiving $17.3 million in cash funding from the Province and $0.6 million from Natural Resources Canada, with the latter being restricted for use in establishing the new market development program in India. The total will be $0.3 million less than in 2012/13.

As usual, about half of the available funding will be used to share the cost of activities proposed and delivered by not-for-profit organizations that responded to FII's most recent market development and Wood First calls for proposals. The budget allocation for such funding recipients will be virtually the same as their actual expenditures in 2012/13. The same is true of the budget allocations for FII China, FII's corporate support, and FII's self-initiated activities and in Vancouver. The budget for FII India will be slightly greater than 2012/13 expenditures.

Operations

FII will continue to rely heavily on trade associations to develop and deliver market development programs based on country-specific strategies and quantified sales objectives for each product line and identified end-use. FII staff in Vancouver will continue to initiate limited research into new market possibilities, while supporting the industry with a wide range of communications materials in established markets.

In China, all major demonstration projects were completed by late 2012 and FII China staff will now focus on building deeper and broader relationships with Chinese government officials at all levels, as well as with State-owned real estate development companies. Staff and contractors will provide "front-end" support for wood frame design and engineering, while the B.C. trade associations will continue to provide "downstream" support with technical training, assistance in changing building codes and fire codes, and on-site construction quality support.

Now that FII India's early establishment phase is complete, its employees and contractor(s) will reach out to Indian wood users, gathering detailed knowledge of the best commercial prospects, potential customers and distribution channels.

Financial

Year-over-year financial data for FII and its two subsidiary companies are summarized in the tables on the following page.

Forestry Innovation Investment Ltd.
Statement of Funding and Expenditures by Program
Comparison to Budget and Prior year

	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Budget	Variance from Budget (under) over		2013/14 Budget	2014/15 Budget	2015/16 Budget
Funding										
Receipts - Province of BC	$ 23,075	$ 18,723	$ 20,520	$ 17,208	$ 17,800	$ (592)	(2)	$ 17,300	$ 17,300	$ 17,300
Receipts - Wenchuan Reconstruction	1,847	4,772	117	-	-	-		-	-	-
Receipts - Government - Other	3,341	2,637	284	624	-	624	(3)	600	-	-
Investment Income	-	-	38	38	-	38		-	-	-
Other Revenue	-	-	762	1,004	-	1,004	(5)	250	250	250
Total Funding	$ 28,263	$ 26,132	$ 21,721	$ 18,874	$ 17,800	$ 1,074		$ 18,150	$ 17,550	$ 17,550
Expenditures										
Market Outreach & Initiatives	17,443	14,513	15,474	13,463	13,900	(437)		12,400	12,160	12,160
China - Market Development	3,815	(1) 2,781	2,901	2,536	1,900	736	(4)	2,600	2,400	2,400
China - Wenchuan Reconstruction	1,697	4,690	880	-	-	-		-	-	-
China - Demonstration Projects	3,035	2,761	1,015	-	-	-		-	-	-
India - Market Development	-	-	-	873	900	73		1,600	1,440	1,440
Corporate Support	1,381	1,054	1,236	1,220	1,175	45		1,300	1,300	1,300
Amortization	436	247	193	128	125	3		250	250	250
Total Expenditures	$ 27,807	$ 26,046	$ 21,701	$ 18,220	$ 17,900	$ 420		$ 18,150	$ 17,550	$ 17,550
Excess of Funding Over Expenditures	$ 456	$ 86	$ 20	$ 654	$ -	$ 654		$ -	$ -	$ -

(1) Includes $1,003 of non cash DHC prepaid lease write-off
(2) 550k of this contribution has been deferred to future periods
(3) The commitment for this contribution was received after budget approval
(4) When the funding described in (3) above was received additional programs were undertaken in China
(5) Funding leveraged from other stakeholders where FII jointly delivered a project

FII Consulting (Shanghai) Co. Ltd.
Statement of Funding and Expenditures

	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Budget	Variance from Budget (under) over	Variance from Prior year (under) over
Funding							
Receipts - Forestry Innovation Investment	$ 3,815	$ 2,781	$ 2,901	$ 2,536	$ 1,800	$ 736 (2)	$ 365
Total Funding	$ 3,815	$ 2,781	$ 2,901	$ 2,536	$ 1,800	$ 736	$ 365
Expenditures							
China - Market Development	3,815 (1)	2,781	2,901	2,536	1,800	$ 736 (2)	365
Total Expenditures	$ 3,815	$ 2,781	$ 2,901	$ 2,536	$ 1,800	$ 736	$ 365
Operating Income (loss)	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Includes $1,003 of non cash DHC prepaid lease write-off
(2) When the funding was confirmed from the federal government for the India program additional programs were able to be undertaken in China

Forestry Innovation Consulting India Pvt. Ltd.
Statement of Funding and Expenditures

	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Budget	Variance from Budget (under) over	Variance from Prior year (under) over
Funding							
Receipts - Forestry Innovation Investment	$ -	$ -	$ -	$ 319	$ 800	$ (481)	(319)
Receipts - Natural Resources Canada	$ -	$ -	$ -	$ 554	$ -	$ 554 (1)	(554)
Total Funding	$ -	$ -	$ -	$ 873	$ 800	$ 73	$ (873)
Expenditures							
China - Market Development	-	-	-	873	800	$ 73	(873)
Total Expenditures	$ -	$ -	$ -	$ 873	$ 800	$ 73	$ (873)
Operating Income (loss)	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Natural Resources Canada agreed to contribute to the India Program after initial FII budgets were submitted

Management's Responsibility for Financial Statements

Scope of Responsibility

Management has supervised preparation of the accompanying consolidated financial statements and related note disclosures and is responsible for their integrity and objectivity. The consolidated financial statements of Forestry Innovation Investment Ltd. (FII) have been prepared by management in accordance with Public Sector Accounting Standards (PSAS). We believe that these consolidated financial statements present fairly FII's financial position as at March 31, 2013 and the consolidated statement of operations, change in net assets, and cash flow for the year ending March 31, 2013 and that the other information contained in the Company's annual report is consistent with the consolidated financial statements as presented.

Internal Controls

Management is responsible for the integrity of the financial statements and has established systems of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to facilitate the preparation of the financial statements in a timely manner. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. We believe our system of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the consolidated financial statements are prevented or detected in the normal course of business.

Board of Directors and Audit Committee

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's discharge of its financial reporting responsibilities. An Audit Committee is appointed by the Board. The Audit Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee has reviewed these consolidated statements prior to recommending approval by the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

Independent Auditors

Grant Thornton has performed an independent audit of the consolidated financial statements of Forestry Innovation Investment Ltd. The Auditor's Report, as attached, outlines the scope of this independent audit and expresses an opinion on the financial statements of Forestry Innovation Investment Ltd.

Ken Baker
Chief Executive Officer

Douglas Greig
Vice President, Finance and Administration

Vancouver, British Columbia
June 3, 2013

Grant Thornton

Independent auditor's report

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To the Board of Directors of Forestry Innovation Investment Ltd.

To the Minister of Jobs, Tourism and Skills Training of the Province of British Columbia

We have audited the accompanying consolidated financial statements of Forestry Innovation Investment Ltd. (the "company"), which comprise the consolidated statement of financial position as at March 31, 2013, the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Forestry Innovation Investment Ltd. as at March 31, 2013, and its operations, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other matter

The consolidated financial statements of the company for the year ended March 31, 2012 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on June 7, 2012.

Vancouver, Canada

June 3, 2013

Grant Thornton LLP

Chartered accountants

FORESTRY INNOVATION INVESTMENT LTD.
Consolidated Statement of Financial Position

March 31, 2013, with comparative figures for March 31, 2012
(in thousands of dollars)

	2013	2012
Financial assets:		
Cash	$ 885	$ 1,857
Accounts receivable	809	82
Recipient advances (note 3)	329	467
Due from other governments	568	81
Total financial assets	2,591	2,487
Liabilities:		
Accounts payable and accrued liabilities (note 4)	1,335	1,332
Future employee benefit (note 5)	-	171
Due to Province of British Columbia (note 6)	-	280
Deferred contributions (note 7)	562	186
Total liabilities	1,897	1,969
Net financial assets	694	518
Non-financial assets:		
Tangible capital assets (note 8)	690	292
Prepaid expenses	440	360
Total non-financial assets	1,130	652
Accumulated surplus (note 9)	$ 1,824	$ 1,170

Commitments (note 10)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board:

Chair, Board of Directors

Director

FORESTRY INNOVATION INVESTMENT LTD.
Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2013, with comparative figures for the year ended March 31, 2012
(in thousands of dollars)

	2013 Budget (Note 2(i))	2013	2012 (Note 2(l))
Revenue:			
Government contributions – Provincial	$ 17,720	$ 17,208	$ 20,520
Government contributions – Federal	-	624	225
Government contributions – Other	-	-	284
Other revenue	80	1,004	1,115
Investment income	-	38	38
	17,800	18,874	22,182
Expenses:			
Funding recipient initiatives (note 12)	10,100	9,021	8,269
Market initiatives and outreach			
FII Vancouver (note 12)	3,800	4,442	7,666
FII China (note 12)	1,800	2,536	4,796
FII India (note 12)	800	873	-
Corporate services (note 12)	1,300	1,348	1,431
	17,800	18,220	22,162
Annual surplus	-	654	20
Accumulated surplus, beginning of year	1,170	1,170	1,150
Accumulated surplus, end of year	$ 1,170	$ 1,824	$ 1,170

The accompanying notes are an integral part of these consolidated financial statements.

FORESTRY INNOVATION INVESTMENT LTD.
Statement of Changes in Net Financial Assets

Year ended March 31, 2013, with comparative figures for the year ended March 31, 2012
(in thousands of dollars)

	2013 Budget (Note 2(i))	2013	2012
Annual surplus	$ -	$ 654	$ 20
Acquisition of tangible capital assets	(50)	(526)	(204)
Amortization of tangible capital assets	200	128	193
Acquisition of prepaid expenses	-	(80)	(76)
Increase (decrease) in net financial assets	150	176	(67)
Net financial assets, beginning of year	518	518	585
Net financial assets, end of year	$ 668	$ 694	$ 518

The accompanying notes are an integral part of these consolidated financial statements.

FORESTRY INNOVATION INVESTMENT LTD.
Consolidated Statement of Cash Flows

Year ended March 31, 2013, with comparative figures for the year ended March 31, 2012
(in thousands of dollars)

	2013	2012
Cash provided by (used in) operating activities:		
Annual surplus	$ 654	$ 20
Items not involving cash:		
Amortization of tangible capital assets	128	193
(Increase) decrease in accounts receivable	(1,214)	1,197
Decrease (increase) in recipient advances	138	(150)
Increase (decrease) in accounts payable and accrued liabilities	3	(1,126)
Decrease in future employee benefit	(171)	-
Increase in prepaid expenses	(80)	(76)
	(542)	58
Cash used in capital activities:		
Acquisition of tangible capital assets	(526)	(204)
Cash provided by (used in) financing activities:		
Change in due to Province of British Columbia	(280)	176
Change in deferred contributions	376	(6,031)
	96	(5,855)
Decrease in cash	(972)	(6,001)
Cash, beginning of year	1,857	7,858
Cash, end of year	$ 885	$ 1,857

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of business:

Forestry Innovation Investment Ltd. (the "Company") was incorporated on March 31, 2003 under the laws of the Province of British Columbia (the "Province"). A board of directors governs the Company, and all directors are appointed by the Province. The Company's principal activities are to fund forest industry associations and research institutions and to deliver market development and market initiatives and outreach programs.

2. Significant accounting policies:

(a) Basis of accounting

These consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards.

Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia requires accounting policies which are consistent with Canadian public sector accounting standards except in regard to the accounting for restricted capital contributions. Under Section 23.1 of the Budget Transparency and Accountability Act and its related regulations, the Company is required to recognize restricted capital contributions as a liability and recognize them into revenue on the same basis as the related amortization expense.

Under Canadian public sector accounting standards, those transfers with stipulations that have been met or that do not contain stipulations that create a liability, are fully recognized into revenue.

The application of Canadian public sector accounting standards and the requirements of Section 23.1 of the Budget Transparency and Accountability Act did not result in any differences related to accounting for restricted capital contributions in the current and prior year.

(b) Reporting entity and basis of consolidation:

These consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity. The reporting entity is comprised of the Company consolidated with FII Consulting (Shanghai) Co., Ltd. ("FII Shanghai"), a wholly owned subsidiary registered under the laws of the People's Republic of China and the newly formed Forestry Innovation Consulting India Pvt. Ltd. ("FII India"), a wholly owned subsidiary registered under the laws of the Republic of India.

FII Shanghai is based in Shanghai, China, and FII India is based in Mumbai, India with both subsidiaries administering market development programs on behalf of the Company. The subsidiaries are consolidated on a line-by-line basis after inter-organizational transactions and balances between these entities have been eliminated.

2. Significant accounting policies (continued):

(c) Revenue recognition:

Unrestricted contributions, donations and grants are recorded as revenue when receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Restricted contributions include amounts from the Province, the Canadian Federal Government, and the Beichuan Municipal County received for specific purposes. Restricted contributions are recorded as deferred contributions when received or receivable. The deferred contribution and associated revenue are recognized based upon the nature of the restriction, as follows:

i) Restricted capital contributions

Capital transfers for which there are stipulations that give rise to an obligation that meets the definition of a liability are recorded as deferred contributions until such time the stipulations are met. Capital transfers for which there are no stipulations are recorded as revenue immediately. To date, no amounts have been recorded as revenue with respect to restricted capital contributions as the stipulations related to the contributions have not been met.

ii) Other restricted contributions

Deferred contributions are reduced and the associated revenue recognized in the period during which the stipulation or restriction on the contribution have been met.

Investment income includes interest recorded on an accrual basis.

(d) Program expenses:

Program expenses include amounts transferred to recipient organizations based on recipient funding contracts to carry out specific program activities. Amounts transferred are recognized as expenses in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met by the recipient, and reasonable estimates of the amounts can be made.

(e) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid securities with original terms to maturity of three months or less from the date of acquisition.

2. Significant accounting policies (continued):

(f) Financial instruments

Effective April 1, 2012, the Company has adopted PS 3450 *Financial Instruments* which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This standard is effective April 1, 2012 and is required to be adopted prospectively. Recognition, derecognition and measurement policies followed in the consolidated financial statements for periods prior to April 1, 2012 are not reversed, and therefore, the consolidated financial statements of prior periods, including comparative information, have not been restated.

Financial instruments consist of cash, account receivable, recipient advances, amounts due from other governments, accounts payable and accrued liabilities, and amounts due to Province of British Columbia.

The Company measures its financial instruments at cost or amortized cost.

For financial instruments measured at cost or amortized cost, transaction costs are added to the cost of the financial instruments.

For financial instruments measured at amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Unrealized gains and losses from changes in the fair value of financial instruments, if any, are recognized in the consolidated statement of remeasurement gains and losses until such time that the related financial instrument is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the consolidated statement of operations and accumulated surplus and the related balances are reversed from the consolidated statement of remeasurement gains and losses.

Interest and dividends attributable to financial instruments are reported in the consolidated statement of operations.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the consolidated statement of operations.

There are no financial instruments measured at fair value, and therefore the consolidated financial statements do not include a consolidated statement of remeasurement gains and losses.

2. Significant accounting policies (continued):

(g) Non-financial assets:

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful life
Computer equipment	3 years
Computer software	2 years
Furniture and equipment	5 years
Leasehold improvements	lesser of the lease term and its useful life
Tradeshow booths	3 years

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt.

(iii) Interest capitalization

The Company does not capitalize interest costs associated with the acquisition or construction of tangible capital assets.

(iv) Intangible assets

Intangible assets are not recognized in these financial statements.

(h) Foreign currency translation:

These consolidated financial are stated in Canadian dollars. The Company's foreign operations, conducted through FII Shanghai and FI! India, are considered financially interdependent with the Company, and are translated from Chinese Renminbi (RMB) and Indian Rupee (INR) using the temporal method of translation. Accordingly, monetary assets and liabilities are translated at the spot exchange rates in effect at the date of the statements of financial position; non-monetary items are translated at historical exchange rates in effect on the dates of the transactions. Revenue and expense items are translated at monthly average exchange rates in effect during the month in which the transaction occurred, except for amortization which is translated at the historical exchange rate of the corresponding non-monetary item. Realized exchange gains and losses are included in the consolidated statements of operations.

2. Significant accounting policies (continued):

(i) Budget:

Budget data presented in these consolidated financial statements is based on the Company's Service Plans. The budget was approved by the Board of Directors on March 27, 2012.

(j) Use of estimates:

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the allowance for recipient advances and useful lives of property and equipment. Actual results could differ from those estimates.

(k) Segment disclosures:

A segment is defined as a distinguishable activity or group of activities of a government for which is it is appropriate to separately report financial information to achieve the objective of the standard. The Company has provided definitions of segments used by the Company as well as presented financial information in segmented format in note 12.

(l) Comparative figures:

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

3. Recipient advances:

Recipient funding contracts stipulate that unspent advances are repaid back to the Company. Historically unspent advances have been repaid back to the Company prior to the end of the first quarter of the new fiscal year after final reconciliation reports have been submitted and final audits have been completed. As at March 31, 2013, the Company has identified $329 (March 31, 2012 - $467) as repayable by the recipient organizations.

4. Accounts payable and accrued liabilities:

	2013	2012
Trade payables	$ 570	$ 833
Accrued liabilities	765	499
	$ 1,335	$ 1,332

5. Future employee benefit:

The Company had an obligation to pay a retirement allowance of $171 to a senior executive at the expiry of the employment agreement. The contract expired March 31, 2012 with the retirement allowance paid in full in early fiscal 2013.

6. Due to Province of British Columbia:

The Company receives funding from the Province pursuant to a funding agreement. In prior years, under the terms of the funding agreement the Company was required to, on an annual basis, refund any unspent funding to the Province upon the completion of the final audited financial report. Unspent funding was not subject to interest charges.

Commencing in fiscal 2013, the funding agreement was changed to allow the Company to carry forward any unspent funding and interest earned on funds advanced as surplus.

7. Deferred contributions:

Deferred revenue consists of contributions received from the Province for tangible capital assets and advances on federal contracts with goods and services still outstanding. Deferred revenue contributions are comprised of the following:

	2013	2012
Deferred contributions – Provincial	$ 550	$ -
Deferred contributions – Government of Canada	12	13
Deferred contributions – Other	-	80
Other – restricted cash	-	93
	$ 562	$ 186

8. Tangible capital assets:

(a) For the year ended March 31, 2013:

Cost	Balance at March 31, 2012	Additions	Disposals	Balance at March 31, 2013
Computer equipment	$ 600	$ 109	$ (49)	$ 660
Computer software	76	2	(17)	61
Furniture and equipment	353	17	(97)	273
Leasehold improvements	265	392	-	657
Tradeshow booths	479	9	(7)	481
Total	$ 1,773	$ 529	$ (170)	$ 2,132

Accumulated amortization	Balance at March 31, 2012	Disposals	Amortization expense	Balance at March 31, 2013
Computer equipment	$ 518	$ (49)	$ 46	$ 515
Computer software	66	(17)	8	57
Furniture and equipment	297	(93)	21	225
Leasehold improvements	203	-	17	220
Tradeshow booths	397	(8)	36	425
Total	$ 1,481	$ (167)	$ 128	$ 1,442

	Net book value March 31, 2012	Net book value March 31, 2013
Computer equipment	$ 82	$ 145
Computer software	10	4
Furniture and equipment	56	48
Leasehold improvements	62	437
Tradeshow booths	82	56
Total	$ 292	$ 690

(b) Assets under construction:

With the setup of the new FII India subsidiary there were tangible capital assets under construction or development as at March 31, 2013 of $428 (March 31, 2012 - $0) consisting of furniture & equipment of $15, computer and electronic equipment of $33 and leasehold improvements of $380.

(c) Tangible capital assets disclosed at nominal values:

Cost includes the fair market value of certain assets transferred to the Company from the Province effective April 1, 2003, for one dollar. These assets are now fully amortized.

9. Accumulated surplus:

	2013	2012
Share capital (a)	$ -	$ -
Provincial (b)	1,064	420
Other (c)	760	750
Surplus, end of year	$ 1,824	$ 1,170

(a) The Company has authorized capital of 100 common shares without par value of which 10 shares are issued and outstanding. The Minister of Jobs, Tourism and Skills Training holds the shares issued as the designated representative of Her Majesty the Queen in right of the Province.

(b) Provincial surplus of $1,064 (March 31, 2012 - $420) represents operating funds received from the Province, including interest, in excess of expenses of $167 (March 31, 2012 - $0), funds that were spent on tangible capital assets of $690 (March 31, 2012 - $292) and advance deposits of $207 (March 31, 2012 - $128). The Company's funding agreement with the Province was changed in fiscal 2013 to allow for the carryover of any funds received from the Province into future periods.

(c) Other accumulated surplus of $760 (March 31, 2012 - $750) represents funds received from the Government of Canada including interest, in excess of expenditures incurred of $758 (March 31, 2012 - $750), and other revenue of $2 (March 31, 2012 - $0).

10. Commitments:

(a) The Company has lease commitments for its premises it occupies.

2014	$ 924
2015	395
2016	208
2017	92
2018	-
Thereafter	-
	$ 1,619

(b) The Company also has an obligation to pay $434 (2012 - $645) for contracts entered into, and not yet completed at March 31, 2013.

11. Financial instruments risk management

The Company has exposure to the following risks from its use of financial instruments:

Credit risk

Credit risk is the risk that the Company's counterparties default or become insolvent.

The Company is potentially exposed to credit risk through cash, accounts receivable, recipient advances and due from other governments. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. Accounts receivable consist mainly of federal cost share agreements which are monitored on a regular basis. Recipient advances are made three times through the year to reputable recipients, and FII staff monitors the status of such advances on a continuing basis. Amounts due from other governments consist of reimbursement claims. It is the Company's opinion that its exposure to credit risk is subject to normal industry risks and is considered minimal.

As at March 31, 2013, accounts receivable, recipient advances and amounts due from other governments are comprised of:

	Under 90 days	Over 90 days	Total
Accounts receivable	$ 809	$ -	$ 809
Recipient advances	329	-	329
Due from other governments	568	-	568
Allowance for doubtful accounts	(-)	(-)	(-)
	$ 1,706	$ -	$ 1,706

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company manages its exposure to liquidity risk by maintaining sufficient cash balances throughout the year to meet its short-term obligations. It is the Company's opinion that its exposure to liquidity risk is subject to normal industry risks and is considered minimal.

11. Financial instruments risk management (continued):

Market risk

Market risk is the risk that fluctuations in market prices will affect the Company's net financial assets. Market risk comprises three types of risk:

Currency risk

Currency risk is the risk that fluctuations in foreign currencies will affect the Company's net financial assets denominated in foreign currencies.

The Company is subject to foreign exchange risk through its program payables and program advances and a portion of the Company's program and tradeshow costs, which are denominated in Chinese Renminbi, Indian Rupee, Japanese Yen and other foreign currencies. The Company manages its exposure to currency risk by natural hedge of assets and liabilities denominated in foreign currencies. The Company does not use derivatives instruments to reduce its exposure to foreign currency risk.

Interest rate risk

Interest rate risk is the risk that fluctuations in interest rates will affect the Company's net financial assets that bear interest at variable rates.

The Company manages its exposure to interest rate risk through debt management strategies including monitoring of interest rates, leveraging unrestricted surplus funding against the interests rate debt.

Other price risk

Other price risk is the risk that fluctuations in other market factors will affect the Company's net assets subject to other market factors.

The Company manages its exposure to other price risk by seeking to minimize these risks through its program sourcing policies (including the use of multiple sources, where possible) and its operating procedures.

12. Segmented information:

Segmented information has been identified based upon programs provided by the Company. Company programs and their activities are reported by functional area in the body of the financial statements. Programs that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

(a) Funding Recipient Initiatives

Uses project funding delivered through an annual "Call for Proposals" in partnership with the Government of Canada to fund forest industry associations and research institutions, to:

- maintain and create opportunities for B.C. wood products in existing and emerging markets;
- ensure that customers, consumers, designers, builders, developers and architects know about B.C. wood products and the many positive features they bring to wood-frame construction and interior finishing;
- support the development of innovative new forest products; and
- provide interested parties around the world with information on the properties and qualities of B.C.'s forest products and the B.C. companies that supply them.

(b) Market Initiatives and Outreach Program

i.) FII Vancouver Initiatives

Internally direct delivered programs that:

- identify potential opportunities for B.C. forest products through market research and develop market access strategies;
- ensure B.C. forest products have access to markets free from regulatory and other barriers through initiatives and research; and
- provide customers and foreign regulators with facts about the environmental merits of B.C. forest products, including the sustainable forest management regime that underlies their production.

Environmental campaigns that promote misleading or incorrect information are quickly challenged by the Company and its partners. They also monitor development of draft legislation and procurement policies in other jurisdictions, and intervene if necessary to obviate or minimize measures that would impair the flow of B.C. forest products into a particular market. They do this in part by making relevant officials aware of frequently unintended consequences if draft legislation or policy is adopted.

12. Segmented information (continued):

ii.) FII China Initiatives

FII China has a mandate to increase the volume and value of B.C. lumber exports to China by expanding the share of wood frame construction in China's building sector. FII China focuses on the following activities:

- Expanding and strengthening relationships with central and regional government agencies responsible for building and construction in China, and with large state-owned developers, emphasizing the pursuit of strategic and joint initiatives;
- Building partnerships with established market leaders in China's development sector and supporting these companies in areas of concept development, planning and design, code application, and resource integration; and
- Working closely with Canadian forest industry trade association staff to expand China's technical capacity to deploy wood frame construction.

iii.) FII India Initiatives

FII India has a mandate to establish a local presence in India for B.C. and Canadian forest products companies; develop working relationships with government officials, regulatory agencies, and the wood user community; and position B.C. and Canadian forest products for future growth. The operation focuses on early-market (pre-commercial) development activities, including:

- Supporting development of the market for B.C. and Canadian forest products through market research;
- Promoting B.C. and Canadian wood species in various end-uses;
- Educating the market place on B.C. and Canadian wood species and their proper use;
- Providing intermediation with Indian regulatory authorities; and
- Providing direct support for B.C. companies entering the India market

(c) Corporate Services:

Corporate services perform the following activities:

- Ensure financial reporting to government standards;
- Provide Human Resource, IT and office services to meet organizational needs;
- Oversee budget and planning controls in alignment with strategic objectives; and
- Provide corporate communication and analytical services to meet internal and external needs.

12. Segmented information (continued):

	Funding recipient initiatives	Market Initiatives and Outreach			Corporate services	2013 Total	2012 Total
		FII Vancouver	FII China	FII India			
Revenues:							
Government contributions							
– Provincial	$ 8,963	$ 3,429	$ 2,535	$ 317	$ 1,964	$ 17,208	$ 20,520
– Federal	58	9	1	556	-	624	225
– Other	-	-	-	-	-	-	284
Other revenue	-	1,004	-	-	-	1,004	1,115
Investment income	-	-	-	-	38	38	38
Total revenues	9,021	4,442	2,536	873	2,002	18,874	22,182
Expenses:							
Amortization	-	-	30	1	97	128	193
Auditing	27	-	31	14	53	125	196
Grants	-	557	194	-	-	751	2,627
Office costs	-	231	252	118	147	748	1,133
Professional services	142	755	531	351	288	2,067	2,477
Program costs	8,556	1,766	183	29	26	10,560	12,025
Salaries wages and benefits	296	1,009	1,029	162	665	3,161	3,046
Trade missions	-	-	18	-	-	18	21
Travel and business costs	-	124	268	198	72	662	444
Total expenses	9,021	4,442	2,536	873	1,348	18,220	22,162
Annual surplus	$ -	$ -	$ -	$ -	$ 654	$ 654	$ 20

Contact Us

Further information on Forestry Innovation Investment is available at www.bcfii.ca. A Report to Stakeholders published in November 2012 highlights accomplishments in major markets around the world. FII's current Service Plan, as well as previous Service Plans and Annual Reports are available at www.bcfii.ca.

Comprehensive information about B.C.'s sustainable forest management practices and products is available at www.naturallywood.com, with links to many forest-product companies and trade associations.

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